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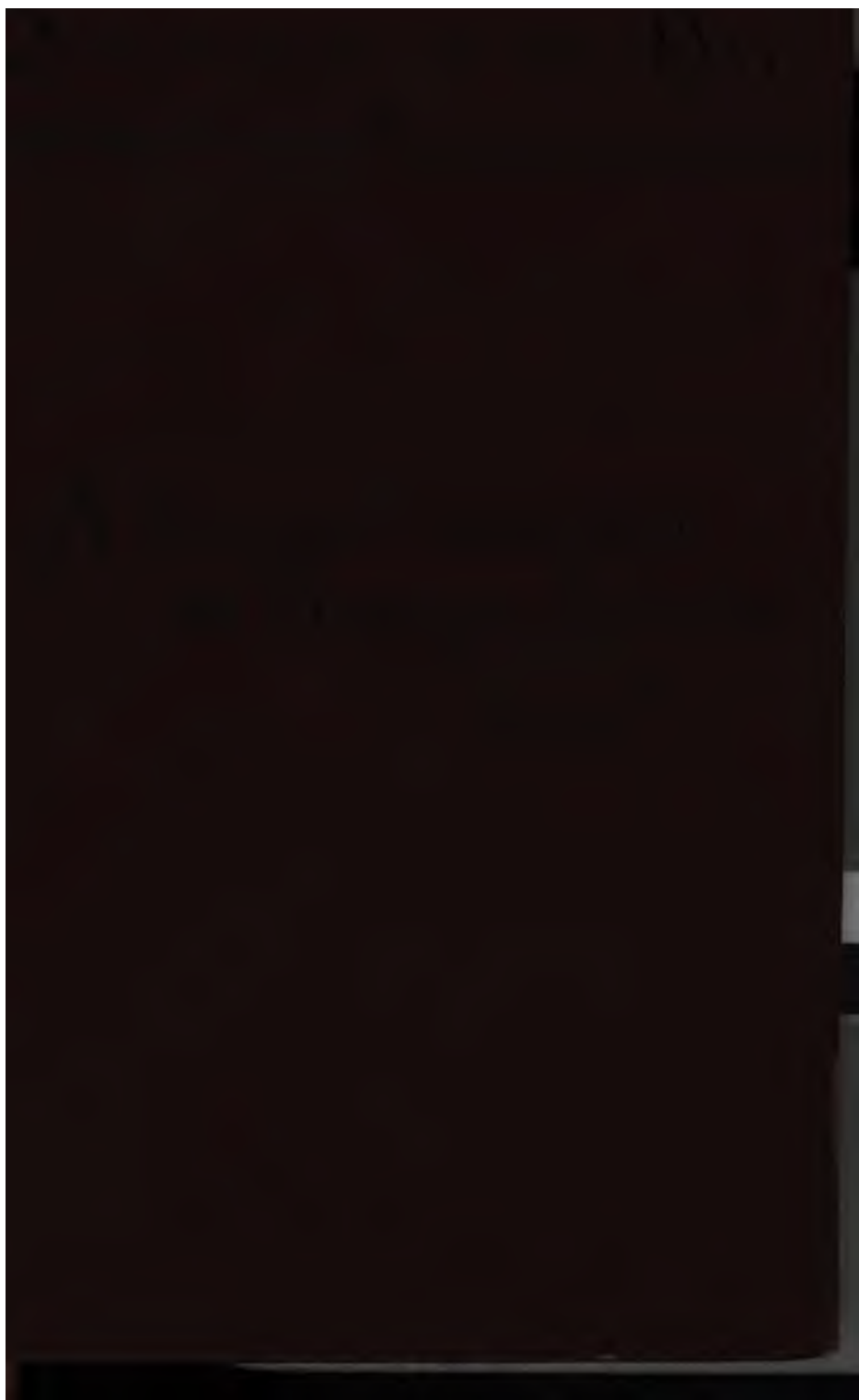
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Questions of the day
A SOUND CURRENCY AND
BANKING SYSTEM

HOW IT MAY BE SECURED

BY

ALLEN RIPLEY FOOTE

AUTHOR OF "A DISCUSSION OF THE ECONOMIC PRINCIPLES
INVOLVED IN 'THE LAW OF INCORPORATED COMPANIES
OPERATING UNDER MUNICIPAL FRANCHISES'"

G. P. PUTNAM'S SONS

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PREFACE.

To the Sufferers from the Panic of 1893 :

The unemployed who want employment ;

The partially employed who want to work full time ;

The under-paid who want better wages ;

The self-employed ; all engaged in agricultural, mining, or manufacturing production ; industrial, commercial, or financial enterprises, who want their undertakings to become profitable ;

All whose prospects for a speedy return of prosperity are clouded with uncertainty.

My desire is, through this book, deeply to impress the following facts upon the mind of each person, and to cause him to understand just how his interests are involved in the questions under consideration.

1. Incorrect monetary education results in unsound monetary legislation, and thus causes business panics.

2. The losses caused by panics are fines exacted from every loser as a penalty for permitting incorrect monetary knowledge to exist, either by failing to acquire correct information for himself, or by neglecting to assist others to acquire it.

3. A speedy and permanent return of prosperity for all classes can be induced whenever a majority of voters are able correctly to guide their actions on monetary questions.

4. The cost of disseminating correct monetary information, as compared with the losses caused by panics, may be likened to the cost of an insurance premium, as compared with the losses caused by an exceedingly disastrous fire. No fire can ever be comparable with a financial panic in its destruction of values.

5. By throwing multitudes out of employment, cutting down the days of employment for others, reducing the wages of all, decreasing or wholly wiping out the profits of business, and by shrinking the value of all property, the losses directly caused by the panic of 1893 may safely be estimated at over *Two Thousand Millions of Dollars*. This is the enormous price paid by the people for their failure to acquire a correct monetary education by which to guide their actions. Every person who shared in this enormous loss should know that the same cause, if permitted to continue, will again produce a like result.

6. The immediate return and continued maintenance of a high degree of prosperity for all the people are not prevented by any natural economic condition. Words have never been more faithful to the truth than the following uttered by President Cleveland in his Special Message to Congress, January 28, 1895 :

“With natural resources unlimited in variety and

productive strength, and with a people whose activity and enterprise seek only a fair opportunity to achieve national success and greatness, our progress should not be checked by a false financial policy and a heedless disregard of sound monetary laws, nor should the timidity and fear which they engender stand in the way of our prosperity."

A properly appointed Monetary Commission can devise A SOUND CURRENCY AND BANKING SYSTEM that will remove the cause of financial panics. To assist in securing the appointment of such a Commission, and as a help to a right understanding of the importance, aim, and direction of the work it should do, the papers contained in this book were written.

A. R. F.

WASHINGTON, D. C.



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CHAPTER I.

INTRODUCTORY: A PLEA FOR A MONETARY COMMISSION.

THE CURRENCY PROBLEM IS A FINANCIAL AND A
PATRIOTIC, NOT A POLITICAL QUESTION.

THE lesson most clearly taught by experience is that the currency issues of a country must be regulated by the requirements of its industries and commerce, not by the exigencies of political party management.

Patriotism is concerned with the promotion of the general welfare. In making proposals for currency reform, public men, financiers, and economists should find favor in public opinion only when the measures they advocate are based on motives of patriotism which require that they shall be designed solely for the common good. A recognition of such motives will permit judgment to be influenced by the fact that the correct management of the exchanges of the country, domestic and foreign, is a true science that can be intelligently applied by experts only. It will bring into plain view the fact that the currency question, in its true significance, involves the art of properly handling all exchanges of the pro-

ducts of industry, domestic and foreign. No one can be an expert in this art who has not gained his education through large and long-continued practical experience in the manipulation of financial affairs.

The chief difficulty met with in efforts to revise currency legislation is found in the popular misconception that, in some undefinable and mysterious way, laborers, farmers, planters, mine-workers, and all directly or indirectly engaged in the manual labor of production are, or will be, placed at a disadvantage by the adoption of measures approved by sagacious financiers and able economists, solely with the view of placing the currency of the country on a stable, sound, and an automatically adjustable basis. This misconception is most hurtful when it causes public men to discredit measures emanating from such sources.

One lesson the people need to learn—one pregnant with the highest good for their welfare—is that regulations governing the issue and redemption of currency that *are best* for manual laborers and all engaged in producing commodities that are objects of exchange, *are also best* for investors, savings-bank depositors, and all engaged in a legitimate banking business. The converse of this statement is equally true. Regulations governing the issue and redemption of currency that *are not best* for manual laborers and producers of commodities, *are not best* for investors, savings-bank depositors, and legitimate banking business, *but they are best* for those speculators who thrive on the misfortunes of others.

A careful reading of history discloses the fact that

at no time since the organization of the national government has the problem how properly to settle the currency question been thoroughly discussed as a non-partisan patriotic measure, solely in the interests of the general welfare, nor even as an independent measure of party policy. The measures that have been enacted have never fully represented what the ablest public men knew to be best, but rather, the best they have thought it policy to enact. Their actions have been guided by their judgment of the requirements of popular prejudices, instead of their own best intelligence. As a logical sequence, the enacted measures *have not been best* for manual laborers, producers of commodities, investors, savings-bank depositors, and legitimate banking business, *but have been best* for speculators, who have grown rich on the disasters such measures have caused. The fact that those who demanded the enactment of these measures honestly believed they would operate to the advantage of the poor, and as a check upon the assumed arrogance of the money power is impotent to protect those asking for the legislation from being involved in the ruin it has wrought. It should be clear to the perception of any man endowed with the power to cast a ballot, that all actions, and pre-eminently actions regulating the issue and redemption of currency, must be intelligently as well as honestly guided, if disasters are to be avoided and the best obtainable results are to be realized.

Another lesson the people need to learn is that they should apply to the solution of the currency problem the same good sense they use in conducting

the ordinary affairs of life. When a person wants a watch repaired, he does not take it to an engine builder but to an established watchmaker, with whom he leaves it in unquestioning confidence that the repairing will be well done. When a person feels himself suffering from a diseased condition of his blood, he does not go to a clergyman for his remedies, but to the most expert physician he can afford to employ. Common sense is a sufficiently safe guide for the conduct of the people in such affairs, because they permit themselves to be guided by the principle of fitness for service to be performed in the selection of their agents. Why do they permit this principle to lose its potency when they deal with the currency problem? It is because they permit prejudice instead of intelligence to guide their action. When they desire their agents, their representatives, to build battle-ships or to construct public buildings, the people expect them to employ experts to make the designs and superintend the work. In dealing with the currency problem the people should require the same course to be followed, and request their representatives to authorize and provide for a non-partisan commission of experts, selected from the ablest men of affairs, financiers, and economists in the country, to take charge of the detail work of constructing a currency and banking system that shall be sound in all its parts, and designed solely to be best for manual laborers, producers of commodities, investors, savings-bank depositors, and legitimate banking business. If the people make this request so clearly and so broadly as to relieve their



representatives from all doubt about it, they will not hesitate to authorize and provide for such a commission.

Because personal prejudices and local prejudices have been permitted to guide action instead of honest intelligence, the currency problem has been tinkered with but not reformed. The penalty of this error has been enormous, and it is not yet fully paid. This misfortune has been caused by the misunderstanding of the people of one section by the people of other sections, of the people of one class by the people of other classes. These misunderstandings have tended to intensify prejudices and to prevent mutual appreciation. To overcome these difficulties and enable the people to establish a sound currency and banking system that will be as changeless, and as universally beneficent in its operation as the natural law of exchange, which must be recognized and applied before a stable prosperity can be induced, a method of procedure radically different from the methods that have been followed, must be adopted and carried out. What this course should be is stated in the discussion of the currency problem which follows.

The papers here assembled were written for independent use. For this reason, when brought together, some repetitions will be found. They may be regarded as emphasizing the statements that are repeated. The trend of events since the first papers were read in 1893 give deeper emphasis to the plea then made for the organization of a Monetary Commission. All events that have occurred, all discus-

sions and plans that have appeared since that time, but serve to illustrate the necessity of taking such action. If there was then in the mind of any one a doubt as to the good policy of such a course, that doubt can but be removed by the fact that no opinion, nor plan, nor party policy commends itself to the judgment of the people of all sections and of all classes sufficiently to secure their decisive support.

All is yet chaos. The old story is being repeated of proposing measures, known to be defective, as being the best compromise with prejudice that can be effected. But the situation is one that will admit of no compromise. The currency problem must now be solved. It is not within the power of any man or party to settle it until it is rightly settled. The interests of the people now demand that compromising with fallacies shall cease. The people realize that they are entitled to, need, and must have the best currency and banking system that human wisdom can devise. This statement brings to view another consideration.

The men are few, and are fast growing old, who occupied positions of large responsibility that gave them practical daily experience with the tremendous growth of financial operations engendered by the Civil War, and who have since, by actual management of the business of exchange, been required to study daily the course of industry and commerce as it rapidly expanded under the stimulus of currency inflation, and then more rapidly contracted under the depression of currency stagnation. Their

ripe experience and high intelligence, gained 'midst the turmoil of stirring events, and under pressure of the most trying ordeals, is of priceless value to their country. In but one way can their experiences and mature judgments be crystallized and preserved in concrete form for the benefit of the people. It is through securing their services for the correct solution of the currency problem by appointing them as expert members of a non-partisan Monetary Commission. Their patriotism is unquestioned. They are now at the age where temptations and ambitions for the acquisition of things they are to enjoy are losing force. If appointed on such a commission, their sole ambition would be to bequeath to their country a sound currency and banking system that would be as beneficent and as enduring, and as worthy of high honor, as the Declaration of Independence, and the Constitution itself.

None of these men are in political life. Their services can be secured only by appointments. They must be secured quickly or the opportunity will be lost. Their days for active work are nearly numbered. The rich treasures of their observations and experiences in dealing practically with the currency problems will soon be lost if not promptly utilized. Though living in an atmosphere of speculation, none of these men are speculators. But they know far better than any one else can, how to check speculation without checking the legitimate exchanges of industry and commerce. This knowledge is of priceless value for the formulation of a sound currency and banking system. Opportunity to secure the

services of some of these men has been lost since the first paper here published was read. Such losses, by those best fitted to know, are regarded as national catastrophes. They should cause those now in position to direct the course of events to take security, by prompt action, against liability of other such losses. For an enduring settlement of the currency problem the country needs the services of men who have been taught by an experience which all men devoutly hope may never be repeated.

A measure authorizing a Monetary Commission may contain the following provisions :

1. That an expert non-partisan Commission shall be appointed by the President, of not less than fifteen, nor more than twenty-one members, not more than nine of whom shall be bankers, and not less than two of whom shall be selected from each of the census geographical divisions of the United States ; one member of each national political party to be selected from the United States Senate, and one each, from the House of Representatives, so as to secure representation, by membership, for the Commission in each legislative body.

2. A section defining the duties of the Commission.

3. Proper provisions for the payment of the services and expenses of the Commissioners, and of the necessary clerical and other assistants.

4. Directions establishing its principal place of meeting, and authorizing and directing the Commission to hold, at least one public meeting in each geographical division for the purpose of taking

testimony, and hearing explanations of suggestions.

5. That the Commission shall make a final report to Congress within one year, and submit the testimony and statistics it has collected, together with its recommendation of such measures as, in its opinion, should be enacted to secure a final and satisfactory solution of the currency problem, which report should be printed by the Treasury Department for public distribution.

To secure the passage of such an act, each person whose good sense tells him that it is the right thing to do, and the only practical way out of the existing difficulties, should request the Senators and Representatives in Congress from his State to vote for a measure of the character here indicated.

If each will do the duty of one, to cause it to be clearly and definitely understood *that such action is wanted*, it will be done. This will be a practical illustration of the truth that the common sense of the people can be trusted to cause them to do the right thing when an issue of vital importance is presented to them for prompt and decisive action. Upon this fact the hope of future prosperity is well founded.

CHAPTER II.

A PLEA FOR A SOUND CURRENCY AND BANKING SYSTEM.

THERE is no truer standard by which to test the monetary honesty and intelligence of a people than that furnished by discussions of the currency and banking system by means of which they effect their exchanges.

Honesty and intelligence are an indispensable foundation for a sound ethical, economic, currency and banking system; for good character; for confidence; for credit; for industry; for commerce; for progress and for prosperity. Men must have intelligence enough to understand and honesty enough to obey the moral law, before they can understand and properly apply economic law. Men must understand and willingly obey the requirements of economic law, before they can properly formulate and intelligently adopt a sound currency and banking system.

All departures from these fundamental propositions are factors of error. The possibility of error creates doubt. Doubt destroys confidence. The destruction of confidence destroys credit. The destruction of credit destroys the value of the instruments of banking by means of which exchanges are effected.

The destruction of the medium of exchanges destroys commerce. The destruction of commerce destroys industry. The destruction of industry destroys the opportunity to labor. The power of a laborer to produce, by the labor of a day, more than is required for the support of his life for a day, is the power, by the use of which property is created. The destruction of the opportunity to labor prevents the creation of property, arrests progress, and causes adversity to displace prosperity.

The certainty of reward induces diligence, energy and skill. The certainty of the undisputed enjoyment of savings, profits, and increments, induces care, thrift, and prudence. These are the factors of prosperity for every individual, from the lowliest laborer to the wealthiest capitalist. These are the foundations of character and of property.

All discussions of the economic principles involved in systems of industry, commerce, currency and banking must deal with the two acquisitions of life, character and property. The moral law teaches honesty as a principle. The economic law teaches honesty as a practice. Honesty intelligently practised is the most helpful condition that society can formulate for the welfare of the lowliest laborer. Honesty intelligently practised is the most potent protection that society can formulate for the security of property. A plea for such a revision of currency and banking legislation as will bring its underlying principles and the daily practice of the people into strict accord with the divine law of morals and the natural law of economics, is a plea for the promotion of the



welfare of all who labor and save, and for the security of the property created by their savings. A currency and banking system, so founded, is indispensable to progress and prosperity. It will secure for the laborer the opportunity to labor, by furnishing the means for his support while he is engaged in the processes of production. It will reward his labor, by enabling him to retain his honest share of the joint product of labor and capital. It will satisfy his desires by effecting the exchange of the surplus commodities created by his labor, for commodities created by the labor of others, and will thus enable him to command, for the supplying of his wants, the enhancement of his comfort, the enjoyment of his hours of rest, the world-wide resources of industry and commerce. The man most directly and vitally interested in the formulation and adoption of a sound system of American currency and banking is the American laborer.

All history is a record of an irrepressible conflict between good and evil. The battle-fields change, but the underlying principles are changeless. History shows that in each period some question pregnant with far-reaching and vital issues for the welfare of mankind reached maturity and demanded settlement. It also shows that the settlement of such a question absorbed the entire talent, energies, and resources of the people. For this reason, other questions of gathering force and of equal importance are compelled to remain in abeyance until the question demanding settlement can be dealt with and settled, and until a period for rest and recuperation can

be enjoyed. In the life of humanity, principles and events are the real factors, men the incidents. We may wishfully call for peace, but there is no peace.

A question that was held in abeyance during the conflict for American political independence and for the integrity of the Republic, has now reached maturity, and stands in the pathway of our progress and prosperity demanding settlement. It is the question of the formulation and adoption of a sound American currency and banking system. This question is as far-reaching in its consequences, as pregnant with good or evil for the welfare of the people, as was any question that has been solved by our predecessors. In the conflict now taking form, the forces of good and evil are being marshalled under two standards of value; the dollar of gold, representing a gold dollar's worth of honest labor, and the dollar of arbitrary power, representing the fiat of government. The one is founded on the sound economic principle of self-help, the other is founded on the economic fallacy of State socialism. Self-help is founded on diligence, energy, and skill employed in the labor of production, and on savings, profits, and increments massed and employed as capital in furnishing the tools and supplying materials for production. There is but one honest way in which a laborer can prosper, and that is by producing more than he consumes and owning the difference. By no possibility can his margin for saving be honestly increased by the interference of the State. If the State increases the margin for saving for any man, it can be accomplished only by arbitrarily transfer-

ring to him a portion of the savings of some other man. Such action violates the requirements of honesty and cannot be approved by those who are honest and intelligent. Repugnant as the teachings of State socialism are to the spirit and the purposes of the Republic, much has been done under cover of the authority of National legislation to give them practical effect. Such legislation is evidence that the people, though actuated by honest motives, have not been rightly informed by their political teachers.

Whenever monetary legislation becomes destructive of the prosperity of a people, it is evident that such legislation does not accord with the requirements of natural economic laws. Acts of Congress or of State Legislatures may make a monetary system legal, but if it be in conflict with the requirements of natural economic laws, the time must inevitably come when natural laws will vindicate their sovereignty over man-made laws, and will exact a penalty for the economic crime committed. From the payment of such a penalty, no plea of ignorance, no proof of good intentions, no exhibit of honest labor can save. A vivid illustration of this truth is found in the attempt to establish the use of a fiat currency, through a large monthly purchase of silver bullion and the issue of silver certificates in payment for the same, which, together with our large stock of over-valued silver coin, is redeemable in gold. So long as these certificate issues and this coin are not redeemable in the commodity for the purchase of which they were created, or, so long as the commodity bought cannot be sold to obtain the gold with

which to redeem the promise made, the entire issue of silver certificates and silver coin is fiat currency. Intelligent men know that the government, vast as its resources may be, cannot indefinitely continue the policy of issuing fiat currency redeemable in gold. They know that, as a final result of such a policy, the day will come when the government cannot redeem its fiat currency in gold. They know that when that day comes, in order to maintain a gold standard of values, the question will be forced upon the people of making choice between stopping all purchases of silver or making silver certificates and silver coin redeemable in silver only, and, as a logical result, the adoption of the free coinage of silver and of a silver standard of values. The doubt as to the outcome of this question has destroyed confidence, credit, commerce, and industry. The loss, so caused, is enormously greater than the entire value of all the silver bullion ever produced in the United States. This loss falls on all classes of the people. To-day, the laborer pleads in vain for employment, on full time, at his former high rate of wages; in vain, the farmer, the planter, and the manufacturer seek a market for their products at former high prices; in vain, merchants and investors plead with you, the bankers of this country, to accept their securities for discounts at former high quotations; in vain, you watch for the inflow of currency at your receivers' desks, which will enable you to make the discounts demanded for the healthful exchanges of commerce. There has been a wide departure from the fundamental requirements of a sound currency,

and the penalty exacted with merciless impartiality from laborers, farmers, planters, manufacturers, merchants, investors, and bankers, is the cost of the error. From such an assessment, made by the logic of events, no plea of ignorance, no proof of good intentions, nor exhibit of honest labor has saved or can save.

The cost of education, through experience, is enormous. It is necessary because society has not learned that it is as vitally important to disseminate correct economic education for the protection of prosperity, as it is to enforce well-devised sanitary regulations for the protection of health. When the disseminator of unsound economic teachings is recognized and isolated as is the distributor of the seeds of contagious disease, honest labor will prosper beyond the present conception of its most devoted advocates.

Our national monetary legislation is founded upon an economic fallacy. Such fallacies are most successfully urged by sincere and earnest men, who, through ignorance, seriously promote unsound currency measures, for no other reason than a devout desire to lighten the burdens and brighten the lives of those whose labor secures for them the least comfort and happiness. The time was when all evil was ascribed to the evil-minded, seeking the destruction of the good. To-day the fact is recognized that a large measure of evil results from the acts of the well-meaning who are wrongly-informed. This is a tremendous gain for the intelligent discussion of economic questions.

All history is an object lesson. It is the extreme of folly to fail or to refuse to learn the lessons taught by the experience of others. The errors of those who have preceded us, in so far as they were errors in an original course of action, were the necessary cost of experimental work. Such work having been once done and paid for, and its results duly recorded, we should profit by it. We have no right to acquire an education through the costly and severe process of our own experience, that can be gained with small outlay from the experience of others. We will not do so if we read history and make correct deductions from its records. Those who study history know that the monetary disasters and distress that we have recently suffered and are now suffering from, are absolutely without cause or reason except that which exists in unsound monetary legislation of our own enacting. The enactment and the further continuance of such legislation is a stupendous blunder. These disasters and this distress are as inexcusable as would be the spreading of a loathsome contagious disease through a failure to observe well-devised and widely published rules for the protection of health. The people of this country now have serious and urgent reasons for studying the fallacies of our monetary system with the view of eliminating them. Our currency and banking system requires remodelling in the light of our recent experience and the teachings of history. This is the most urgent demand of our times. The organizers of the United States government wisely made no provision for the issue of currency by the general government. The legislation



of the several States exhibits no attempt to develop a sound and uniform currency and banking system. We enjoy rich blessings bequeathed to us by our fathers, but we are called upon to deal with questions that had not reached maturity in their day. The only way in which we can enjoy to the full, the good results secured for us by past conflicts, is to maintain every advantage and to advance the line of civilization. This it is our privilege and our duty to do.

To secure the results of experience requires: (1) An accurate knowledge of the facts; (2) the power to make correct deductions from these facts; (3) a detailed knowledge of the existing and prospective conditions of the people for whose benefit the deductions are made; and (4) a sound judgment as to the most helpful form in which to make practical application of the knowledge gained. History furnishes the records of experience, existing conditions the material to be worked upon, and the possibilities of the future the measure of expansive adaptability required.

Natural economic laws govern international commerce. The currency of international commerce is based upon commodities, the value of which is measured by the international standard of value—gold bullion. Commodities are money. Currency is an evidence of their ownership, in the form of a promise to make delivery on demand. In the deep, true meaning of the term, money has never been nor can it ever be created except by labor. The standard money of the world obtains its value and its use from causes over which no government exercises control. It is a currency upon which no government has ever

fixed its stamp. It is that form of money which, when paid to the laborer, will buy for him to-day and will always buy for him, at his home or in any place to which he may carry or send it, the labor of others to the value of his own labor which he gave for the money he received. This is the only form of standard money that honesty and intelligence can permit to be used.

The question what shall be the currency and banking system of this country has never been discussed in its entirety, as an independent issue, and submitted to the people for their adoption as an independent measure. In the past, the industrial, commercial, and financial interests of the country have been required to adjust themselves to the demands of party politics. This has resulted in the unsound legislation from which we are now suffering. No better reason than this can be given for calling upon representatives of the industrial, commercial, and financial interests of the country to formulate, by concerted action, a sound American currency and banking system, and then to require political parties to adjust themselves to its adoption as a fundamental demand for the public welfare. The retardation of the currency and banking question by the exigencies of the past was necessary to its maturity. The date of its maturity has arrived. It must now be dealt with and correctly settled before the people of this country can again enjoy an era of solid prosperity.

The present national currency and banking system was devised under stress of war necessities, when the

people were divided by antagonistic interests and clashing in deadly conflict. With such an origin it was inevitable that the system should fall short of responding fully to the requirements of the whole people when united in the pursuit of the vocations of peace. Its fatal source of weakness is in its diminishing foundation—the national debt. The system contracts instead of expanding, in response to the growing needs of a prosperous and an increasing people, and thus checks their prosperity and growth. The processes of contraction on the one hand and of growth on the other hand have now reached a limit beyond which they cannot go without producing disaster. For this reason there is an urgent demand for a far-reaching revision of currency and banking legislation. During the absence of a sound, practical, and uniform system of State banking, such as would maintain every currency dollar issued at par in gold values, in the hands of all holders, at all times, and wherever they may be, the ability of National Banks to supply a sufficient amount of a sound and a satisfactory currency (which has been immeasurably superior to any currency formerly supplied by State Banks when they were in unrestricted operation) has been a blessing of high value to the people of this country. In this matter the people have profited by their experience with State Bank currency, and have willingly preferred to perpetuate the National Banking System, rather than to deprive themselves of the use of the universally recognized and sound currency issued by National Banks,—a currency that has never failed to be worth par in gold

values, nor has ever caused a loss to any holder, since the resumption of specie payment. This is an instance in which instinct has been stronger than reason. The people seem to know instinctively, that State Bank currency would drive National Bank currency out of use, in obedience to a natural law, that enables poor currency always to drive good currency out of circulation. While practically recognizing this law, by protecting themselves from its operation, through continuing the suppression of State Bank currency, some do not appear to understand why over-valued silver currency drives gold out of circulation, and they clamor for the continued use of silver as a standard money of the country.

There is a real and growing necessity for a sound currency that will automatically respond to the growth and varying needs of the different sections of the country. Such a demand is now taking form and will gather force until it is satisfied. The danger in this demand is found in the false deductions, from the issue by the general government of legal-tender paper currency and of National Bank currency, made by the uninformed, who lead their followers into advocating unsound currency measures. Viewing the whole subject of currency legislation in its entirety, it is apparent that the time has come when it must be dealt with in every feature and detail, before the affairs of industry and commerce in this country can again rest upon a stable and sound foundation. In view of all conditions, present and prospective, which involve questions pertaining to bank currency, the dictates of duty and of wisdom

conspire to cause those who are capable of discussing such questions with broad freedom and true patriotism, to assume the task of devising and fitting for practical adoption, a currency and banking system that will automatically respond to all requirements for a sound national and local currency, and that will maintain every dollar issued at par in gold values, so long as it shall remain in the pockets of the people. When this is done, the acts of strained legality, made necessary by the exigencies of the past, can be safely repealed, as the scaffolding is torn away from a completed structure, revealing its beauty and strength, and opening it to its career of usefulness. *Until this is done, those acts must stand for the protection of the people.* To do this properly, the records of experience must be searched and their lessons carefully learned by sound reasoners capable of making correct deductions from the facts of history. A clear and correct conception of the true functions of banks and of the meaning and uses of their instruments of exchange, such as currency notes, checks, drafts, bills of exchange, letters of credit, etc., must be formed and brought to the knowledge of the people, showing that none of these are money nor a standard of value ; that they are simply a means of using credit for effecting exchanges at gold-coin values, without the use of coin ; that they increase the convenience with which business may be transacted, and serve to give to each individual the use of credit, wherever he may be. The usefulness of banks must be shown to consist in performing the exchange functions of currency, without

creating values, and in aggregating, subdividing, and making available the funds of those who have capital to loan for the purpose of placing it at the command of those who, by reason of their ability profitably to employ more capital than they possess, are in position and can afford to be responsible borrowers.

But little thought will be required, on these lines, to show, that while certain well-defined objects should be the common aim of all currency and banking laws, there must be as wide differences in the business transacted under them as there are in the occupations of the people. While the aim is to afford the highest obtainable maximum of utility with the lowest obtainable minimum of danger, without over-stimulating trade or departing from a stable standard of values, the fact must be recognized that this desideratum cannot be reached if the system is wholly devised within the limits made necessary by the present national laws. The National Banking System must be perfected as an issuer of currency, so that all United States government paper currency may be retired, and it must be supplemented by an auxiliary and uniform system of local banks of issue, through which a natural automatic contraction or expansion of local currency will take place in exact response to all local requirements. The total absence of all State Banks of issue creates an opportunity to construct a banking system entire.

In a paper limited as this must be, no attempt can be made to exhaust the subject. I am content, on this occasion, simply to indicate the wide and comprehensive scope that must be given to its con-

sideration, and the results of high utility that may be obtained. I hope sufficient has been said to justify my claim that there is nothing in the nature of things to prevent the people of this country from devising, carrying into operation, and enjoying to the utmost, the most stable, the soundest, and the most automatically adjustable currency and banking system in the world; a system, by means of which we can gain and maintain our financial independence. To such a consummation, all patriotic and well-informed citizens can afford to contribute their suggestions and support.

Such a work cannot be successfully undertaken by politicians who retain power by beguiling the people into the belief that their party has always been sound on questions of finance, no matter what the party platforms may say, or what financial measures may have been enacted by party votes. It can be well done only by those who have the patience and the courage to formulate a system which will be the best they can devise, done as they would write it if there were no obstacle in the way of its adoption as a whole, and as they would have it stand if its adoption were entirely within their own power. By so doing they will place before the people a model of excellence, the best that human wisdom can create. They will erect a standard of value by which all proposals pertaining to currency questions can be measured. They will centralize discussion on this standard. This will educate the people to an appreciation of its excellence, a process that must be accomplished before it can be intelligently

adopted. By this means, through the general monetary knowledge they will acquire, and by the well-considered, sound, and adjustable currency and banking system which will result from such procedure, the people will be greatly benefited. Such work will simplify the labor necessary to secure final success by clearly indicating the obstructions that must be overcome and the special points regarding which there is the most urgent need to disseminate correct information.

Work of this character is particularly fitted for the American Bankers' Association. A special Committee appointed by this Association, for such a purpose, will undoubtedly receive the recognition and active co-operation of all industrial, commercial, and financial organizations in the several States, on the request of the Association, asking the election by them of one or more persons to represent the industrial, commercial, and financial interests of the State, as members of a National Monetary Conference, to name the members of a Monetary Commission. Such a commission will have no party political significance or authority. Its spirit will be patriotic, its aims beneficent, its methods broad and comprehensive. It should have sufficient character and influence in its personnel, through representing the material rather than the political interests of the people of each State, to secure such changes in constitutions and legislation, national or State, as may be required for the complete adoption of the currency and banking system it may recommend. Its office will be to formulate the best system of cur-

rency and banking it is capable of devising for the advice and information of the whole people, and to point out the changes necessary to be made in national and State legislation to clear the way for its adoption. Pending its deliberations and the publication of its findings, the fact of its existence and a general knowledge of its work and progress will exert a powerful restraining influence on the activity of ill-advised currency tinkers, and will tend to secure, for the people, a period of rest much to be desired, after the frightful financial strain which they have recently sustained and from which they are still suffering.

Such an effort cannot fail greatly to improve, if not actually to define, the final form which a settlement of the monetary questions now demanding to be dealt with, will assume. It ought to profit by the experience of older nations, and to result in developing and carrying into practical operation a system of currency and banking that will be best in its fundamental principles and working methods; best in its flexibility and ready adjustment to the needs of the people in all sections of the country; best in strength and helpfulness to industry and commerce; best in its power to conserve and properly apply to useful work, the surplus energy of all productive employments; best for the general welfare and highest good of the whole people; a system without a peer in the history of nations, a new manifestation of the power, prestige, and glory of a Republic, founded by men whom we honor, preserved by men whom we admire, and enjoyed by men able to

perpetuate and to transmit untarnished, and with an added contribution of their own of equal value, for the benefit of their successors, all the good in their inheritance, a model of excellence for all nations.

REMARKS FOLLOWING THE READING OF THE
PAPER.¹

"The PRESIDENT—Gentlemen, I think you will all unite with me in sincerely thanking Mr. Foote for his very able and interesting paper.

"The PRESIDENT—Gentlemen, let me introduce to you one of the fathers, and a former President of this Association, a veteran in finance, who has been at the head and front of the banking profession in New York for nearly two score years as President of the American Exchange National Bank of New York, Mr. Geo. S. Coe. (Applause.)"

"Mr. COE—Gentlemen, I thank you.

"I observe that I am set down upon the programme for an address. That is a mistake. The only address I propose to make is this:

"It is a striking fact in our financial history that expedients adopted by this nation under the sudden stress of Civil War, are those which more or less substantially remain to the present date, and while every other evidence of that momentous conflict has passed into oblivion, that which was hastily adopted as a temporary form of currency, and would seem most transient, is really the most enduring.

¹ *Proceedings of the American Bankers' Association, Chicago Convention, 1893, pages 36, 37, and 38.*

“The power of government to enforce upon the people its own promises to pay something as equivalent to present payment of existing debts, still remains, in modified form, as the full legal-tender money of the nation. A present value of service done by any one member of the community does not even now fully meet a service of equal value, done by another, without the mysterious and qualifying intervention of a government debt somehow interposed between them.

“While the government, then without money, freely emitted its obligations under the extremest pressure of war, its engagements were given out as imperatively demanded, either in notes or in bonds, until the lowest practicable point at which they could be used in payment of debt had apparently been reached. The happy thought was then suggested to the Secretary of the Treasury, of repressing every other form of note circulation, and of uniting the bonds with the notes in a special and exclusive form of corporate obligations, as desired, for use by the country at large. The banks throughout the loyal States most willingly acquiesced in the proposed change.

“This combination, proposed at that critical juncture, proved a most conspicuous success, and gave immeasurable relief to the nation. All this is past history.

“The question now naturally arises whether that exclusive organization thus created for the special exigency, has necessarily superseded every form of currency existing before the War, and whether every system previously established has been or can be thus

forever blotted out, under the existing conditions of our State and national compact. And further, may the public debt be prolonged simply to issue currency upon it, or may the amount be increased or diminished for this reason alone? Also, is there not in the natural exchange of property passing through the hands of producers and consumers the real and fundamental currency most required for all sound banking?

“Without discussing their real merits, all these questions naturally force themselves into serious consideration by the able and suggestive paper of Mr. Foote, and they will necessarily enter into the discussion of this Convention.

“Aside from the great subject of coined money, which will doubtless be deemed of prime importance, the question of currency, by which the exchanges of the whole community are chiefly made, must demand the most serious consideration.

“With the various forms of currency now existing, this comprehensive question cannot be hastily disposed of without danger of adding another to the many forms that already prevail. Rather the attempt must now be most diligently made to create a system that will take the place of all others, and, if possible, one that will eminently deserve national preference.”

CHAPTER III.

HOW SHALL A SOUND AMERICAN CURRENCY AND BANKING SYS- TEM BE ESTABLISHED?

THIS question must now be dealt with and correctly settled before the people of this country can again enjoy an era of solid prosperity. For this reason, it is the most urgent question of our times.

The act prohibiting further purchases of silver bullion by the United States Treasurer is the most important monetary measure enacted by Congress since the act fixing a date, after which the obligations of the United States would be redeemed in United States coin. This act opens the way to a solid and lasting career of prosperity for the laboring and producing classes of every section, by compelling the people to discuss and permanently to settle the question of remodelling our currency and banking system. At no time since the organization of our government, until now, has a fitting opportunity presented itself in which the whole people, united in the pursuit of the vocations of peace, could discuss and settle this question on its merits, as a distinctive issue, freed from the sentiments, traditions, and prejudices of the past.

The organizers of the nation made no attempt to formulate and adopt a sound and comprehensive system of American currency and banking. Their energies and resources were completely exhausted by the settlement of questions pertaining to national organization and independence. All monetary legislation enacted by them was confined to placing a few basic conditions in the Constitution: the adoption of such expedients as gave promise, from time to time, of supplying funds for the Treasury; establishing mints for the coinage of money; and incorporating a Bank of the United States in 1791, and another in 1816. The chartering of these banks was merely an expedient for carrying the country through the monetary difficulties caused by the prosecution of the war for independence (1776) and the war for sailors' rights (1812). An attempt was again made to establish such a bank in 1844. Two bills, having that end in view, then passed Congress, but both were vetoed by President Tyler. The monetary provisions in the constitution of the United States are as follows:

Article 1, Section 8 [in part]. Congress shall have power to coin money and regulate the value thereof, and to provide for the punishment of counterfeiting the securities and current coin of the United States.

Section 10 [in part]. No State shall coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts: pass any bill of attainder, *ex post facto* law, or law impairing the obligation of contracts.

Article 10. Amendments to the constitution.—“The powers not delegated to the United States by the constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people.”

Until the war of the rebellion, the currency and

banking system of this country was founded on United States coin, a bank of the United States operating under a national charter from 1791 to 1811, and another Bank of the United States operating under a national charter from 1816 to 1836; and State Banks of issue, chartered by the several States. During all this time, no effort was made to formulate a currency and banking system that would be uniform in every State; sound, automatically adjustable to the fluctuating requirements of the business of all sections of the country, and able to supply all the currency required promptly to effect the exchanges of industry and commerce. As a result of this failure to master the problem of a sound and comprehensive currency and banking system, unsound banking measures were enacted in many States. The notes of unsound banks became abundant because they were "cheap" and could be easily supplied. When the inevitable disaster came, sound banks were forced into suspension through the suspicions and want of confidence which took possession of the people, engendered by the failures of unsound banks. The lessons taught by the experience of those days may be briefly stated as follows:

First. State Banks of issue can be so organized, controlled and managed as to maintain every note issued by them, good at par in gold values. Such banks have existed in this country since the first bank charter issued by the Confederation to the Bank of North America, in 1781. This bank, having passed through several charter changes, is now doing business in Philadelphia as a National Bank. Its history

is a monument showing what may be accomplished by honesty and intelligence when applied to finance.

Second. Inferior currency and superior currency cannot be maintained in circulation, at a parity with each other. This is shown by the "bank note detectors" of ante-bellum days, quoting the discounts at which the notes of State Banks would be received in the principal commercial centres of the country.

Third. Inferior currency, in obedience to a natural law, will invariably drive superior currency out of circulation. Every person instinctively hoards coin and good bank notes and pays out mutilated or inferior bank notes.

Fourth. Whenever unsound currency or banking legislation creates suspicions and a want of confidence in financial institutions, a panic occurs which punishes, with merciless impartiality, all classes of the people for permitting such enactments. That such measures have been necessary is disproved by the fact that, at the very time they were enacted, examples of sound banking existed in the midst of the people. That money is made plenty in the pockets of the people by attempts to make money "cheap" through disregarding the requirements of sound banking, is disproved by the fact that it is impossible to issue a sufficient amount of "cheap" money to repair the loss of the good money it will drive out of circulation. Every attempt to do this has created and always will create a panic and cause the disappearance of all currency.

Fifth. In monetary affairs, the dishonest and the uninformed entail severe penalties on the honest and

the intelligent, for permitting them to exist, in exactly the same manner as those who commit sanitary and moral sins compel the wholesome and upright to suffer by their misdeeds. The only security against monetary panics is a sound currency and banking system, intelligently understood and voluntarily adopted by a majority of the whole people. The only permanent remedy for a lack of sufficient good currency at any time in any section of this country is sound monetary education.

CHANGES WROUGHT BY WAR.

During the War of the Rebellion, the extraordinary conditions then prevailing led to the issue of United States legal-tender notes, to a uniform organization of National Banks of issue in all States, and to the complete suppression of all State Banks of issue. These acts have been held to be constitutional by the Supreme Court of the United States, as war measures, then necessary for the defense of the national government. These measures have never been before the people for discussion as measures of public policy, nor have they ever been submitted to the people for their adoption as measures for the general welfare. They were discussed and enacted by Congress, as measures of necessity and of temporary expediency. This is an instance in which the powers reserved to the people by the constitution were exercised by the people's representatives in Congress, in defense of the people's government, and such exercise of these powers, by virtue of the decisions of the people's Supreme Court, has resulted in a con-

structive change in the constitution of the United States, which, for the first time, secured to the national government the exclusive right to issue legal-tender currency notes and to charter banks of issue. In this respect the war of the rebellion has wrought as important and as far-reaching a change in the monetary system of the country, by abolishing State Banks of issue, as it did in the industrial system of the South by abolishing slavery. This momentous change has been acquiesced in until now, because political rather than monetary questions have absorbed the attention of the people. The political and industrial results of the war were secured, beyond the possibility of doubt, by amendments to the constitution. The monetary results of the war have been allowed to remain with no other security than acts of Congress confirmed by the Supreme Court. The fact that these acts of Congress may yet be repealed and thus throw the monetary system of the country back into a condition of chaos that existed in ante-bellum days is a factor of doubt, a cause of distrust and want of confidence in our entire currency and banking system. No such doubt would exist if there were no lack of sound monetary intelligence among the people ; therefore, the fundamental remedy for the monetary distress from which the people are suffering, as the result of unsound monetary legislation, enacted or feared, is the wide dissemination of correct monetary information. Had such work been thoroughly done, and *no compromise with the demands of the dishonest or the uninformed* been made the watchword of those in power from

1873 to 1878, when the well-meaning but misguided people demanded that the redemption of all existing United States legal-tender war-currency notes should cease, the disasters and distress of the panic of 1893 would not have occurred. The cost of that panic is the penalty which the people of this country have paid for permitting monetary ignorance to exist. This is not all. The work that was not done in the period from 1873 to 1878 must be done now or history will repeat itself. A like cause will again produce a like result. "Domestic tranquillity" is the permanent condition sought to be established. "The common defense" is contributory thereto. The vocations of peace, not of war, are the true occupations of all the people. Peace has its necessities as well as war. Our fathers fought for political liberty. Ours is the high honor of contending for industrial liberty and economic independence. Political liberty was won and maintained by the use of physical force. When a Republic was founded on the "consent of the governed," to be expressed by the free exercise of manhood suffrage, civilization reached the farthest limit to which it can be carried by the use of physical force. Beyond that limit all progress is dependent upon the honesty and intelligence with which votes are cast and counted. The will of the people is formulated and expressed by the action of the majority. If the majority is honestly and intelligently directed, its action will promote individual and public welfare with absolute certainty. If the majority is dishonestly or unintelligently directed, honest-minded though it may be, that its action will

be destructive of individual and public welfare, is inevitable. From the victories of battles in times of war; from the victories of ballots in times of peace, there is no appeal.

UN SOUND MONETARY LEGISLATION SINCE 1873.

People who entertain monetary fallacies embody them in political creeds and enact them into laws whenever they can gain the power to do so. From this source demands came that the government should make money plenty by still further issues of legal-tender paper currency; that the redemption of United States legal-tender notes should cease; that a fixed amount of silver bullion, in value, should be bought and coined by the United States Treasury every month (1878); that a fixed amount of silver bullion, in weight, should be bought by the United States Treasury every month and paid for by an issue of legal-tender silver certificates redeemable in coin (1890); that the national law, taxing State Bank issues so that they cannot exist, shall be repealed, and that the government shall enter upon the free and unlimited coinage of silver. These are the factors of error present in our monetary legislation, enacted or proposed, that have caused the credit of our government and of the people gradually to recede from the high standing attained when our disposition and ability to pay all obligations in gold coin were demonstrated (1879). These are the factors of error that have thrown the monetary affairs of this country into successive panics, and have cost the people untold millions, as the price of their departure from

sound economic principles. This being true, any effort to restore prosperity must be based on a wide dissemination of sound economic and monetary intelligence. Such intelligence is not the exclusive possession of any class or set of men. It is the golden fruit of experience, mined in the struggle for gains, by every person who works with an honest purpose and intelligently observes the conditions which effect his own prosperity. It is possessed in its entirety by no one. It exists here and there like nuggets of gold, of no value unless discovered and utilized; of great value when properly freed from all dross and coined (published) for the use of the people.

This fact is further illustrated by the attacks continuously being made on our National Banking System, but for the existence and soundness of which, every bank in this country would have been closed during the recent panic, and the people would have lost untold millions by the presence of worthless State Bank notes in their pockets.

Sound monetary legislation enacted under stress of overmastering circumstances may not be thoroughly understood nor cordially approved by the people. Such legislation is always weakened by doubts as to its stability. This is illustrated by the fact that the Resumption act of 1875 was soon modified by suspending the cancellation of redeemed United States legal-tender notes, and by the attempted departure from a gold standard of values, made by enacted and proposed laws pertaining to the purchase and coinage of silver; by the proposed attempt to open the way for insufficiently considered systems



of State Banks of issue, and by the avowed purpose of those disappointed by the enactment of the silver purchase repeal law at once to commence a campaign to secure the election of members of the next Congress who will be committed to the policy of enacting a law authorizing the free and unlimited coinage of silver.

So long as the laws establishing the national banking system, the law suspending silver purchase or the limiting of the monetary use of silver to the present holdings, and the law restraining State Banks of issue by a national tax, are subject to repeal by act of Congress, and so long as a considerable number of people entertain monetary fallacies which cause them to desire such repeals, there will be an element of doubt as to the stability of our currency and banking system, which will be a continual cause of irritation and a source of weakness to the industries of the nation.

Upborne by underlying political forces in the struggle for national unity, the people were carried far beyond the limits set by themselves for themselves, by an unsupported decree giving freedom to slaves. Had not that gain for the freedom of labor been firmly anchored in the constitution, pride, self-interest and prejudice would have caused large numbers of misguided men to seek to overthrow or to nullify the freedom of those to whom freedom was so reluctantly conceded. Such a state of affairs would have destroyed all possibility of prosperity in the south. Upborne by underlying monetary forces in that same struggle for national unity, the people

were, in the same manner, carried far beyond their previous conceptions of currency and banking systems, by acts substituting a sound system of National Banks of issue for unsound and widely differing State Banking Systems, and by acts requiring the final payment of all obligations in gold coin, thereby guaranteeing to American laborers a gold dollar's worth of the products of the labor of others, in any market in the world, in payment of every dollar's worth of labor performed by themselves. Had those monetary gains been anchored in the constitution, as were the political results of the war, all factors of doubt as to their stability would have been forever silenced and our monetary system would to-day be without a peer among nations. Unfortunately, in this instance, as in all the past, political questions absorbed the entire attention of the people, and such monetary acts as were carried into effect were regarded as temporary expedients, useful for the time, but subject to change at some convenient future. No attempt was then made, nor has there ever been an attempt made, to bring a correct knowledge of the requirements of a sound currency and banking system to the people. As a result of this failure, large numbers of men, guided by sentiment, self-interest, prejudice, and a desire for political power, are seeking to overthrow the most commendable monetary measures, the value of which they are unable to understand, and in the administration of which they have reluctantly acquiesced. Every act of retrogression since 1873 has been a compromise with the demands of the dishonest, of the misin-



formed or of the uninformed. These successive backward steps demonstrate the fact that no compromise with error can be final or enduring. These successive backward steps have carried the monetary affairs of this country as far in the wrong direction as they can go without creating a disaster so far-reaching and widespread that it may for a time destroy the credit of the government and of the people. These successive backward steps have brought our monetary affairs to a condition that will admit of no further compromise. The line between sound and unsound systems of currency and banking must now be deliberately drawn, and the struggle for supremacy be carried to a finish. The enactment of the silver purchase repeal bill is the first victory for sound money since 1873. It has a double value: first, in what it will accomplish by virtue of its own merit; and, secondly, because it gives notice to the world that a turning-point has been reached, and that from that day forward all changes in our monetary system will be in the right direction.

HOW A DECISIVE SOUND-MONEY VICTORY CAN BE WON.

A general review of monetary discussions, in and out of Congress, can but satisfy any observant and thoughtful person that there is urgent need for honest, intelligent, well directed and well sustained work, before a popular vote can be depended upon, properly and permanently to settle our monetary questions. These questions cannot be correctly settled until the ruling majority of the people under-



stand the economic principles involved and are ready to apply them for the promotion of the public welfare. Such a settlement must be the victory of honest, intelligent, and earnest public opinion. The creation of such an opinion is the business of those who are engaged in developing and directing the industrial, commercial, and financial interests of the people. These questions underlie every interest and affect the prosperity of every person. Labor and business interests must make it certain that industry and commerce shall not be struck down again by unsound monetary measures proposed by politicians to catch the votes of the unthinking, the corrupt and the uninformed, and that the spectacle shall not be again repeated of the entire industrial, commercial and financial welfare of the people held in disastrous suspense, week after week, and month after month, waiting the action of political wire-pullers.

The spectacle of Nero fiddling while Rome was burning is often quoted as illustrating the lowest level of official depravity. That conflagration in Rome did not destroy property worth a majority fraction of the total loss caused for the people of this country by senators who allowed disasters and distress to continue while they filibustered. In view of this painful experience and the disastrous compromises which politicians have successively adopted, a new departure must be made, a way must be found by which a sound currency and banking system can be formulated by those whose business it is to deal practically with such subjects, and then present it to the people for adoption.

The mistakes of 1878-1890 must not again be repeated. Those who favor sound money are fully as responsible for these mistakes as are those charged with advocating monetary fallacies. When the demand first came from the South and West for still further issues of United States legal-tender notes, and, this failing, for the suspension of the redemption and cancellation of such notes, it should have been treated as a signal of distress. Sound-money advocates from every section of the country should have met this call by examining, promptly, the needs of the sections from which it emanated, and, after sufficient investigation, they should have proposed sound-money measures which would have brought the desired relief. Had this been done, the monetary fallacies from which we are now suffering would be powerless for evil. Instead of taking this course, sound-money advocates gloried in the resumption of specie payments, in the fact that the country was again doing business on a gold standard of values, declared our National Banking System to be the best banking system in the world, and would listen to no proposals for its revision. They were satisfied. They wanted no change. They berated those asking for relief for their lack of monetary intelligence, but they could not successfully resist their demands. The position then taken by sound-money advocates compelled those needing monetary relief to become first "green backers" and then "silver men." From that day until the proclamation of the president convening the fifty-third Congress in extraordinary session (1893), and the publication of his message to



Congress when convened, there has not been a single clear, uncompromising demand that retrogression in monetary legislation shall cease.

Let the people learn this lesson ; let them be shown how this may be done ; let them feel the new life of throbbing industry and enterprise inspired by an unhindered supply of a sound currency ever ready to exchange the products of labor, and the delusions of the monetary fallacies now misdirecting their reason will disappear, never to return. The lesson that should have been taught to those crying out in distress for more currency in the years 1873 to 1893, must now be taught to the people of all sections of this country. It is this : An intelligent use of the resources possessed by any community, in strict accord with the requirements of a sound currency and banking system, will supply all the currency that can be required for effecting the legitimate exchanges of industry and commerce. I wish to state this fact clearly : There is no sound economic reason why there should not be, in every village, town, and county in this country, one or more banks of issue, the notes of which shall always be good at par in gold values, and in sufficient supply promptly to effect all legitimate exchanges of the products of labor desired by the people, and this without the use of one dollar of, to them, foreign capital. The people must be taught that their prosperity is dependent upon the intelligent use of the resources and opportunities that are their own, not upon the action of their government. They must be shown that they can so use their own resources as to secure all the monetary relief for

which they have ever asked, and more. Self-help is the countersign of economic freedom. When the people find, from experience, that by the unqualified adoption of sound-money measures they induce the incoming of an era of solid prosperity, a decisive sound-money victory will be won.

HOW A SOUND CURRENCY AND BANKING SYSTEM
MAY BE FORMULATED THAT WILL SATISFY THE
NEEDS OF EVERY OCCUPATION AND OF EVERY
SECTION.

The people of every occupation and of every section must first be consulted. They must be given their part of the work to do and the responsibility of it must be placed upon their duly accredited representatives. In order to secure concerted action upon this vital question, by those who are identified with the material interests of the whole people, rather than by those identified with political policies, a committee of able and widely-known business men should be at once organized, who shall constitute a committee on organization, with power to add to its number. This committee should invite every independent national, State, and local organization, representing all branches of industry, commerce, and finance, to elect one of its members to represent the body in a national Monetary Conference. The duties of the members of this Conference should be :

First. To select, by means of a preference ballot, seven non-partisan experts, to constitute a National Monetary Commission. To accomplish this result,

the committee on organization should request the accredited representatives of all organizations co-operating in the Conference, to name, by preference ballot, seven of the most capable persons known to them, to act as members of a National Monetary Commission. When these ballots have been received, the committee on organization should tabulate them and report to the members of the Conference the twenty-one names receiving the highest number of ballots. Each representative will then select seven names, out of this list of twenty-one, as the choice of the organization; the seven persons receiving the highest number of preference votes on the second ballot to be named by the committee on organization as the members of the National Monetary Commission.

Second. The committee on organizations should request each member of the Conference to formulate and forward to the Commission, a statement of the monetary views of the members of the organization he represents, and of the changes he recommends to be made in the currency and banking system of the country.

Third. The Commission should furnish a copy of its report to each member of the Conference. It will be the duty of each representative carefully to examine the same and lay it before the organization he represents, for its information and action. All objections made to the report, together with suggestions showing the most practical way in which they may be overcome, will be forwarded to the Commission by the representative. If the report of the

Commission is satisfactory to a majority of the body, its representative will report to that effect.

Fourth. When the Commission has made its final report and indicated the action necessary to be taken by Congress and the Legislatures of the several States, to adopt the sound currency and banking system it has devised, the members of the Conference should co-operate with the members of the Commission to secure the legislation desired.

The duties of the Commission should be:

1. To tabulate the statement of views and suggested remedies received from the members of the Conference, by States, occupations, and character. While this work is progressing, to employ expert investigators to examine the monetary history of all countries, for the purpose of writing out an exhibit from recorded experience, showing how others have sought to satisfy similar needs and the success or disasters that have attended their efforts. The object of this investigation should be to show the people the economic fallacies involved in suggested remedies, if such there be, and, if possible, to show some sound methods of relief, of which there is now no popular knowledge or conception.

2. After finishing its critical examination of the whole question, as presented by the reports of views and suggested remedies received from the members of the Conference, and the reports of the experts employed to examine the records of experience, the Commission should formulate a currency and banking system complete in every detail, which, in its opinion, will best serve the interests of the whole

people, united in pursuit of the vocations of peace, without regard to existing legislation on the subject. Such work can be well done only by those who have the patience and courage to formulate a system that will be the best they can devise,—done as they would do it if there were no obstacle in the way of its adoption as a whole, and as they would have it stand if its adoption were entirely within their own power. By so doing the Commission will place before the people a model of excellence, the best that human wisdom can create.

3. This work being finished, the Commission should report to the Conference by supplying to each representative a copy of the tabulated reports of views and suggested remedies made by members of the Conference, and of the report of the results of experience made by the expert investigators, together with a copy of the sound currency and banking system formulated by it, as the result of its investigations and best judgment.

4. After receiving and considering the objections made by the members of the Conference to its proposed system, the Commission should make such changes as may appear to it best, in the light of such criticisms, and then make a final report recommending the system, as ultimately formulated, to the Conference for its adoption, and, through the action of the Conference, to Congress and the Legislature of the several States.

The duties of the committee on organization are sufficiently indicated in the above outline, suggesting a method of procedure. As this whole work is an

undertaking of supreme public importance, and deals, in the most practical and vital manner, with the questions that effect the welfare of every citizen, the committee on organization should prepare a bill, if, in its judgment, such a course shall seem advisable, to be enacted by Congress, incorporating the persons selected as herein set forth, a National Monetary Commission for the purposes indicated, to proceed and report as provided, and appropriating an ample sum for the payment of the commissioners and the expenses of the work to be done by them.

This method of procedure will eliminate all political antagonisms. It will develop the work quickly and carry it to a conclusion without unnecessary delay. Every move will be to the purpose. The people in every section of the country, those engaged in every vocation and every person having an opinion on the subject, will be consulted, and all recorded experience will be utilized. The time and expense required will be the least in which the desired result can be accomplished. It will divest the subject of all sentiments, traditions and prejudices, and permit it to stand on its own merits, uninfluenced by any other consideration. It will enable the ruling majority of honest-minded people to discover and to trace the mutuality of all needs and of all provisions for their satisfaction, "a touch of nature making all men kin," and will cause each to serve another's interest by showing that production is dependent, for its profits, upon prosperous consumers; that commerce is dependent, for its prosperity, upon the welfare of all who produce, and of all who consume; that bank-

ing is safe and profitable, only when it is the medium of exchange between active buyers and sellers, and brings in touch, under conditions conducive to mutual confidence and respect, prosperous depositors and responsible borrowers.

It will do more than this ; it will enable members of labor organizations, of industrial, agricultural, mining, manufacturing, commercial, and financial organizations of every kind to agree upon every detail of a sound American currency and banking system, to secure its enactment into law, and then to proclaim that they will never again allow the industry and commerce of this country to be devastated by unsound monetary legislation.

CHAPTER IV.

IS IT A SAFE TIME TO REPEAL THE NATIONAL TAX ON STATE BANK CURRENCY ?¹

NO permanent settlement of the currency and banking question can be effected until the question is first settled defining the character of banks of issue, whether they shall be exclusively national, exclusively State, or a mixed system of National and State Banks of issue.

When the United States Constitution was adopted, the States ceded to the general government the exclusive right to coin money, but reserved to themselves the right to charter banks of issue. Until the war of the rebellion the currency and banking system of this country was founded upon this basis. War necessities naturally gave greater emphasis to the federal powers and led to the issue of legal-tender notes, to the organization of National Banks of issue, and to the suppression of State Banks of issue by the general government. These measures have since been decided to be constitutional by the Supreme Court of the United States as war measures necessary for the preservation of the Union. Whether they would now be so held by the same court, the *necessity*

¹ *The Banking Law Journal*, December, 1893.

for their enactment no longer existing, is an open question.

The right of self-preservation makes constitutional every measure necessary for self-preservation. There are other rights, however, equally fundamental, and as necessary to be maintained for the promotion of the welfare of the whole people when united in the pursuit of the vocations of peace.

“Governments are instituted among men, deriving their just powers from the consent of the governed. Whenever any form of government becomes destructive of these ends [the welfare of the people] it is the right of the people to alter or abolish it, and to institute a new government, laying its foundations on such principles, and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness.”¹

The will of the people, in a republic founded upon manhood suffrage, is determined by the action of the majority. By the logic of events every State has passively admitted the right of the United States Government to charter National Banks of issue and to suppress State Banks of issue. By their acts of reconstruction all States that attempted secession became members of a new union, in which all banks of issue were chartered by the general government and no banks of issue were chartered by State governments. By the logical sequence of their acts all States have approved a constructive change in the United States Constitution, giving to the general

¹The Declaration of American Independence, adopted by Congress, July 4, 1776.

government the exclusive right to charter banks of issue.

An unsound currency and banking system is as destructive of the welfare of the people in times of peace as are defeats by battles in times of war. This truth is now so fully recognized that all systems for the organization of banks of issue are advocated as being certain to render every note issued good at its denominational value, so long as it shall remain in the pockets of the people. There is no necessary reason why this requirement cannot be as fully satisfied by State Banks of issue as by National Banks of issue. When this requirement is fully satisfied there is no reason why those who own and manage a bank would wish to have it a State Bank of issue; but there are many and important reasons why they would want it to be a National Bank of issue. A currency note, good beyond the possibility of a doubt, at its denominational value, so long as it shall remain in the pockets of the people, is good enough to circulate without challenge, restriction or discount, in every State. If it is not sufficiently good to respond to these requirements, it is not good enough to be issued, and should be given no right to exist by either State or national governments. If it is sufficiently good to respond to these requirements, it is good enough to be issued by authority of the United States, and, being issued by such authority, it will circulate without challenge, restriction, or discount in every State. No banker will voluntarily consent to be restricted within the narrow limits of a State when, by complying with exactly the same conditions, his

currency notes can enter into the comparatively limitless sphere of the inter-state exchanges of the nation.

If the people of a State have the wisdom and the resources that will enable them to formulate and enjoy a system of State Banks of issue that will combine the highest possible maximum of utility with the lowest possible minimum of danger, they have sufficient wisdom and resources to enable them, with the co-operation of the people in other States, to formulate and enjoy a system of National Banks of issue that will respond to these requirements and will supply a currency of unquestioned value, uniform in character, protected from counterfeiting by United States laws, known to and recognized by every person to whom it may be offered within the limits of the nation. If the people of any State are so deficient in wisdom or resources that they are unable to formulate and enjoy such a system of banking, they should prohibit the organization of State Banks of issue and the circulation within the State of State Bank notes issued by other States, as a means of securing, for their own use, the sound currency issued by National Banks. If the people of all States that are able to formulate and maintain a sound system of State Banks of issue will co-operate with the people of all States that are unable to do this, it will be an easy matter so to amend the Constitution of the United States as to delegate to the general government the exclusive right to charter banks of issue. Such a measure will settle the currency and banking question in a way to secure an absolutely sound system

for the benefit of every person in every State, and it will be based on the fundamental authority of "the consent of the governed." This will remove all uncertainty and irritation caused by the suppression of State Banks of issue by a national tax on State Bank currency, enacted as a war measure.

If the people of a State exercise the right to charter State Banks of issue and fail to make the currency notes issued by such banks as good in every respect as National Bank currency, the effect of such action will be to place the people of the State at a disadvantage with the people of all other States in dealing in inter-state exchanges, just as the adoption of a silver standard of value would place the people of this nation at a disadvantage with the people of other nations in dealing in inter-national exchanges where all values are determined by a gold standard. When the bullion value of a silver dollar in the markets of the world is less than the bullion value of a gold dollar, foreign creditors will demand payment in gold. This will take gold out of this country and leave silver as the coined currency, because the United States Government cannot make a silver dollar a legal tender at its denominational value in payment to a person in a foreign country.

When the secured value of a State Bank note is less than the secured value of a National Bank note, creditors will demand payment in latter; this will take National Bank notes out of the State in which State Bank notes are issued. State Bank notes cannot be made a legal tender. For this reason people who wish to enjoy the benefits of National Bank

currency must prohibit the chartering of State Banks of issue.

CONCLUSIONS.

1. National Banks of issue have been authorized and State Banks of issue have been suppressed as the result of constructive changes in the Constitution of the United States forced by war necessities and sustained by Supreme-Court decisions.

2. The same conditions as to security that will make a State Bank note good will make a National Bank note good ; therefore, a banker can gain nothing and must lose much by issuing a sound State Bank note. He will not issue State Bank notes if left free to choose between the two systems, State and national, both being equally sound and well secured.

3. If a State Bank note is not as well secured as a National Bank note, it should not be issued.

4. If the people of a State can organize State Banks of issue, the notes of which will be as well secured as National Bank notes, they can remodel the national banking system so that the same conditions they would comply with in organizing sound State Banks, will enable them to organize National Banks of issue.

5. If State Banks of issue are chartered and the notes issued by them have a less secured value than National Bank notes, the State Bank notes will drive National Bank notes out of use in the State in which such State Bank notes are allowed to circulate.

6. If the people of a State desire to enjoy the benefits of a National Bank currency, they must prohibit the organization of State Banks of issue.

7. If the people of the States that are able to organize sound State Banks of issue, co-operate with the people of the States that are unable to organize such banks, and for that reason need the benefit of National Bank currency, an amendment to the Constitution of the United States can be adopted delegating to the general government the exclusive right to charter banks of issue. This will place the currency and banking system of this country on a sound and stable basis. It will settle all debatable questions as to what the character of banks of issue shall be, and will base the monetary policy of the people, intelligently and voluntarily adopted, on the broad and enduring foundation of "the consent of the governed." It will then be safe to repeal the national tax on State Bank currency.



CHAPTER V.

THE UNITED STATES TREASURY MUST CEASE DOING A BANKING BUSINESS.¹

“ Attempts to tinker the currency are highly dangerous when they are not governed by a definite and comprehensive knowledge of economic principles as they apply to existing trade conditions.”—
ED. *New York World*, November 16, 1894.

THE American Bankers' Association performed a high public service by unanimously adopting a plan for the creation of a safe and elastic currency, at its convention held in Baltimore, October 11, 1894. The approval of this plan implies that the present currency system of the country is not “safe and elastic.” This acknowledgment gives liberty to criticise existing conditions without danger of being charged with financial heresy.

PAST CURRENCY AND BANKING SYSTEMS.

The question, how to establish a sound American currency and banking system, has never been thoroughly discussed, nor has any attempt ever been made to settle it upon its merits as an independent question of public policy. It must now be so dealt

¹ *The Banking Law Journal*, November, 1894.

with and correctly settled before the people of this country can again enjoy an era of solid prosperity. For this reason, it is the most urgent question of our time. At no time since the organization of our government, until now, has a fitting opportunity presented itself in which the whole people, united in the pursuit of the vocations of peace, could discuss and settle this question on its merits, as a distinctive issue, freed from sentiments, traditions and prejudices.

The organizers of the national government made no attempt to formulate and adopt a sound and comprehensive system of American currency. Their energies and resources were completely exhausted by the settlement of questions pertaining to national organization and independence. All monetary legislation enacted by them was confined to placing a few basic conditions in the Constitution ; adopting such expedients as gave promise, from time to time, of supplying funds for the treasury ; establishing mints for the coinage of money ; and incorporating a bank of the United States in 1791, and another in 1816.

Until the war for the preservation of the Union, the currency and banking system of this country was founded on United States coin, gold and silver, a bank of the United States operating under a national charter from 1791 to 1811, and another bank of the United States operating under a national charter from 1816 to 1836, and State Banks of issue chartered by the several States. During all this time no effort was made to formulate a currency and bank-

ing system that would be uniform in every State, sound, automatically adjustable to fluctuating requirements of the business of all sections of the country, and able to supply all the currency required promptly to effect the exchanges of industry and commerce.

During the Civil War, the extraordinary conditions prevailing led to the issue of United States legal-tender notes; to a uniform organization of National Banks of issue in all States, and to the complete suppression of all State Banks of issue as such. These acts have been held by the Supreme Court to be constitutional, as war measures, then necessary for the defense of the national government. These measures have never been before the people for discussion as measures of public policy, nor have they ever been submitted to the people for adoption as measures for the general welfare. They were discussed and enacted by Congress as measures of necessity and of temporary expediency. Such exercise of these powers, by virtue of the decisions of the Supreme Court, has resulted in a constructive change in the Constitution which, for the first time, secured to the national government the exclusive right to issue legal-tender currency notes and to charter banks of issue. In this respect, the Civil War wrought as important and as far-reaching a change in the monetary system of the country, by abolishing State Banks of issue, as it did in its industrial system by abolishing slavery. This momentous change has been acquiesced in until now, because political rather than monetary questions have absorbed the attention of

the people. The political and industrial changes caused by the war have been secured, beyond the possibility of a doubt, by amendments to the Constitution. The changes in our currency system, caused by the war, have been allowed to remain with no other security than acts of Congress confirmed by the Supreme Court. The fact that these acts of Congress may be repealed and thus throw our currency system back into the condition that existed in ante-bellum days, is a factor of doubt, a cause of distrust and want of confidence in our entire currency and banking system.

Sound monetary legislation enacted under stress of overmastering circumstances may not be thoroughly understood nor cordially approved by the people. Such legislation is always weakened by doubt as to its stability. This is illustrated by the fact that the Resumption Act of 1875 was soon modified by suspending the cancellation of redeemed United States legal-tender notes; by the attempted departure from a gold standard of values made by enacted and proposed laws pertaining to the purchase and coinage of silver; by the attempt to open the way for insufficiently considered systems of State Banks of issue through the repeal of the ten per cent. tax on State Bank circulation; and by the avowed purpose of a large class to secure the enactment of a law authorizing the free and unlimited coinage of silver.

Upborne by underlying monetary forces in the struggle for national unity, the people were carried far beyond their previous conceptions of currency

and banking systems, by acts substituting a uniform system of National Banks of issue for widely differing State Banking Systems, and by acts requiring the final payment of all obligations in gold coin, thereby guaranteeing to American laborers a gold dollar's worth of the product of the labor of others, in any market in the world, in payment for every dollar's worth of labor performed by themselves. Had these gains in monetary legislation been anchored in the Constitution, as were the political results of the war, all factors of doubt as to their stability would have been forever silenced, and our monetary system would to-day be without a peer among nations. Unfortunately, in this instance, as in all the past, political questions absorbed the entire attention of the people, and such monetary acts as were carried into effect were regarded as temporary expedients, useful for the time, but subject to change at some convenient future day. No attempt was then made, nor has there ever been an attempt made, to bring to the people a correct knowledge of the requirements of a sound currency and banking system. As a result of this failure, large numbers of men, guided by sentiment, self-interest, prejudice, or a desire for political power, are seeking to overthrow the most commendable monetary measures, the value of which they are unable to understand, and in the administration of which they have reluctantly acquiesced. Every act of retrogression since 1875 has been a compromise with the demands of the dishonest, of the misinformed, or of the uninformed. These successive backward steps demonstrate the fact that no

compromise with corruption or error can be final or enduring. These successive backward steps have carried the monetary affairs of this country as far in the wrong direction as they can go without creating a disaster so far-reaching and widespread that it may for a time destroy the credit of the government and of the people. These successive backward steps have brought our monetary affairs to a condition that will admit of no further compromise. The line between sound and unsound systems of currency and banking must now be deliberately drawn, and the struggle for supremacy carried to a finish. The enactment of the silver purchase repeal bill is the first victory for sound money since 1875. It has a double value: first, in what it will accomplish by virtue of its own merit; and, secondly, because it gives notice to the world that a turning-point has been reached, and that, from that act forward, all changes in our monetary system will be in the right direction.

WHAT THE CURRENCY AND BANKING SYSTEM OF THE FUTURE MUST BE.

The lesson that should have been taught to those crying out for more currency in the years 1873 to 1893, must now be taught to the people in all sections of the country. It is this: An intelligent use of the resources possessed by any community, in strict accord with the requirements of a sound currency and banking system, will supply all the currency that can be required for effecting the legitimate exchanges of industry and commerce. I wish to



state this fact clearly: There is no sound economic reason why there should not be, in every village, town, and county in the country, one or more banks of issue, the notes of which shall always be good at par in gold values, and in sufficient supply promptly to effect all legitimate exchanges of the products of labor desired by the people, and this without the use of one dollar of, to them, foreign capital. The people must be taught that their prosperity is dependent upon the intelligent use of the resources and opportunities that are their own, not upon the action of their government. They must be shown that they can so use their own resources as to secure all the monetary relief for which they have ever asked, and more, without the purchase of another ounce of silver or the issuing of another note by the government. Self-help is the countersign of economic freedom. When the people find, from experience, that by the unqualified adoption of sound money measures they induce the incoming of an era of solid prosperity, a decisive sound-money victory will be won.

The entire currency and banking legislation of this country, from the organization of the national government to the present day, is but one continuous series of expedients or makeshifts, without a single attempt to formulate and enact a sound and comprehensive system in itself automatically adjustable to the varying needs of all sections of the country at all seasons of the year. This necessary result has been caused by conditions that no longer exist. For the first time in our history, all other

questions of public policy have become of minor importance, or have been forced into abeyance, giving to the currency and banking question a clear field and, imposing upon those who now have to do with the shaping of public affairs, the supreme opportunity and vital duty of dealing with it upon its merits, free from complications with other issues. If they prove themselves as competent and as patriotic to formulate measures for establishing a sound system of American currency and banking, as did the men who signed the Declaration of Independence and adopted the Constitution of the United States in formulating measures for establishing an American political system based on sound principles of government, the people of to-day and their successors through many generations will have cause to do them equal honor.

The demand of the hour is for the absolute separation between the functions of government and the business of issuing currency. That this may be completely and properly done, no change in existing currency conditions should be made until a well-considered plan has been devised and adopted whereby this vital requirement can be satisfied with certainty and without creating financial disturbance. That this can be done is not a debatable question with the intelligent.

THE DEMAND FOR MORE CURRENCY.

So long as the energies of men are devoted to the accumulation of property there will be a demand for more currency. From those whose economic condi-

tion is such that the margin between comfort and distress is so narrow that it is expressed by a few dollars, the demand is most intelligible, but unintelligently made. From those whose economic condition is such that the margin between comfort and distress is so broad that it is expressed by hundreds of thousands, or millions of dollars, the demand is least intelligible, but intelligently made. The many who have no government bonds are starving for currency. The few who own government bonds are surfeited with currency. This is the tragic effect of the present monetary system. And now this system is taking the life of the government as well as that of the laboring masses.

The damage done by the financial failure of an individual, corporation or government is in proportion to the number of persons affected by it. The failure of the United States government promptly to pay every obligation in gold, on demand, will cause distress for every person whose margin between comfort and distress is expressed by a few dollars, but those who have the bonds or the currency for which they can demand the gold can be made to suffer only in a comparative degree. They cannot be made to feel either hunger or cold. The credit of the government must be maintained. While the United States Treasury is in the banking business, its failure to protect its notes would weaken every bank of issue. In a mad effort to protect themselves, all banks would be compelled to hoard currency. This would withdraw currency from circulation and starve every industry in the country. The fear that the United

States Treasury would be compelled to suspend gold payments caused the panic of 1893. The currency famine of that year was the result of the fear of suspension of gold payments. Does any person wish the country to suffer from an actual suspension of gold payments?

The people have not yet learned the lesson taught by the panic of 1893, because they have not rightly interpreted its cause and meaning. They are now entering upon a course of procedure which, if not promptly arrested, will bring a renewal of the experiences of 1893. Why this effort to strengthen the gold reserve if there is no fear of a suspension of gold payments? One factor of weakness has been removed,—the continuous purchase of silver bullion with Treasury notes practically payable in gold; but confidence in the stability of the currency having once been seriously impaired, cannot be regained without substantial reasons.

The old story is repeating itself. If it is perfectly certain that a man can pay his note at maturity, he can renew it as many times as he likes, but let a doubt exist as to his ability to pay, and payment is demanded of him at the first opportunity, and a proposal to renew is regarded as a confession of bankruptcy. From the resumption of gold payments until 1892, no doubt of the ability of the United States Treasury to maintain gold payments had a place in public opinion. During that period there was no considerable demand for the redemption of Treasury notes. When the demand for gold for export was heavy, it was furnished by the banks,

or from gold on deposit with the United States Treasury, and the gold reserve of the government was little drawn upon. During the last two years, nearly all of the gold required for export has been taken from the gold reserve of the government. While the government has been and still is compelled to pay out its gold, it has no means of obtaining gold with which to protect its credit. From October 1, 1891, to September 30, 1894, the Treasury redeemed:

United States Notes.....	\$144,751,150
Treasury Notes of 1890.....	68,543,138

Total Gold taken from Treasury.....\$213,294,288

During this period the total export of gold was \$248,200,429, showing that but \$34,906,141 of exported gold was furnished by banks. For 36 months the average loss of gold taken from the reserve by the redemption of paper currency was nearly \$6,000,000 per month. With a present gold reserve of but little over \$60,000,000, and no means of procuring more gold, the time has at last arrived, clearly seen by close observers since the mistake of 1878, when the financial and currency policy of this country must be changed, or gold payments must cease. This condition is the direct result of a demand for more currency unintelligently made and unintelligently answered.

The present condition of the currency, October 31, 1894, is:

MUST CEASE DOING A BANKING BUSINESS. 69

United States Notes.....	\$346,681,016
Treasury Notes 1890.....	151,140,568
National Bank Notes.....	207,260,795
Gold Certificates.....	64,308,349
Silver Certificates.....	337,712,504
Currency Certificates.....	54,325,000

Total Paper Currency..... \$1,161,428,232

The issue of this currency by the government makes it liable to pay on demand:

United States Notes.....	\$346,681,016
Treasury Notes of 1890.....	151,140,568
Silver Certificates.....	337,712,504

A total for these 3 items of..... \$835,534,088

To this must be added the gold liabilities for interest payments, the payment of current demands requiring remittances to foreign countries, and the maintaining of a parity between gold and silver coin. There is but one way in which parity can be maintained between gold and silver coin, and that is by the prompt exchange of one for the other, as of equal value. Declarations in political platforms or legislative resolutions will not maintain parity one moment, unless an exchange for the coin of one metal can be made at the option of the holder for the coin of the other metal. Parity does not exist in a sentiment, nor in patriotic ardor, but in the concrete fact of exchange at equal value on demand. To meet these enormous gold obligations, the govern-

ment gold reserve is but a little over \$60,000,000.¹ With these facts before the financial world, is it not plain that intelligent and decisive action must be taken, or we shall have to pass through a season of national bankruptcy and currency famine, much more drastic and destructive in its results than any financial depression from which this country has yet suffered? This is the result of unintelligent attempts to appease an unintelligent demand for more currency.

¹ October 31, 1894.

CHAPTER VI.

RECORD OF THE UNITED STATES TREASURY AS A BANK OF IS- SUE CONTROLLED BY POLITI- CAL EXIGENCIES.¹

"Money is a product of man's labor,—a commodity. It is not any one specific thing, but may be almost anything, and is money only by reason of its fitness, at the time, for the service to be performed. In any given community there is a limit to the number of articles produced, and, in earlier times, this limit was very much narrower than now, but however limited the number of commodities may be, there are always one or two that supply the money-want more efficiently than others. Now, as almost any commodity may be used as money, such a thing as a lack of it is not possible so long as man continues to be a producer of commodities, although he may, by false legislation, corrupt his money or throw restrictions around it, and thus lessen its efficiency. All over the world there have been examples of such false legislation whenever governments conceived it to be their function to regulate the value of money." ²

"The final test of coined money is that it shall be worth as much when run into bars as when it is in coin. If it will stand that test, it is world money,—and all coined money should stand it." ³

THE greatest calamity that has ever occurred in the monetary experience of this country, was the

¹ *The Banking Law Journal*, December, 1894.

² *The Natural Law of Money*, by William Brough, G. P. Putnam's Sons, New York, pages 5 and 6.

³ *Ditto*, page 9.

acts authorizing the issuing of United States currency notes, incorporating National Banks of issue in the form in which they were organized, and suppressing State Banks of issue by a prohibitive tax levied for the purpose of suppression, not for revenue, and the decisions of the United States Supreme Court declaring such acts constitutional. These acts were proposed, not because they were sound in principle and in conformity with the fundamental requirements of the natural law of money, but as war measures, under stress of dire necessity. As war measures, not as sound monetary measures, they have been upheld by the courts. These measures were enacted by men whose energies were absorbed and overstrained by a supreme effort to perpetuate the Union. These acts were not studied as sound financial or economic measures. Those who enacted them had no knowledge of the monetary errors they contained. Their want of knowledge of the natural law of money has cost the people thousands of millions of dollars. The first cost of these errors was the cost of the premium on gold paid by the people of this country, in their public and private capacity, from 1862 to 1878, inclusive. The want of proper monetary intelligence has caused the perpetuation of these acts, when no necessity exists for their continuance. The most exhausting and far-reaching cost of these errors results from the economic fallacies that they have bred in the minds of the people, causing them to believe that the government can make money and therefore that it can make money plenty; that the public Treasury, instead of properly organized

and controlled banks of issue, is the source from which the people's currency should issue. These fallacies must be expelled from the minds of the people before our monetary legislation can be aligned with the requirements of the natural law of money. Until this is done we cannot secure stability for our currency and banking system. Without stability, we cannot induce an era of solid and enduring prosperity. To illustrate the force of this statement, reference is here made to the burden of currency legislation under which the industries and commerce of this country have been staggering since the organization of the national government.

RECORD OF CURRENCY LEGISLATION (1787-1893).¹

Adoption of United States Constitution, September 17, 1787:—Article 1, section 8: The Congress shall have power (paragraph 5) to coin money, regulate the value thereof, and of foreign coins; and fix the standard of weights and measures. Section 10 (paragraph 1): No state shall coin money, emit bills of credit, or make anything but gold and silver coin a tender in payment of debts.

Acts of 1791 and of 1816 incorporating a bank of the United States.

Act of April 2, 1792, establishing the Mint of the United States, providing for the free and unlimited coinage of gold and silver coins, and fixing the

¹ All data in this chapter are taken from *The Money of the United States*, by Maurice L. Muhleman, Cashier U. S. Sub-Treasury, New York City, 1894, figures for fiscal year June 30, 1894, being substituted for those of June 30, 1893.

weight and fineness of the metal to be contained in each.

Acts of June 30, 1812; February 25, 1813; March 4 and December 26, 1814; February 24, 1815, authorizing the issue of Treasury notes and certificates.

Act of June 28, 1834, changing the weight and fineness of gold coins.

Act of June 23, 1836, directing the distribution of the surplus to the States according to population, in four installments; three of these installments were paid, the same being somewhat in excess of \$28,000,000. The fourth installment has never been paid. The disaster of 1837 left the Treasury poor, and further issues of notes were resorted to. The amounts authorized by the acts passed each year aggregated \$31,000,000, payable in one or two years, with interest at not more than 6 per cent. nor less than 1 mill (\$.001) per cent. Two millions were actually issued at this latter rate. The authority to re-issue notes received for public dues brought the entire issue to over \$47,000,000; more than \$46,000,000 were retired by 1845; but very few of these notes are now unredeemed.

Act of January 18, 1837, changing the weight and fineness of gold and silver coins.

Acts of 1846-1847 authorizing an issue of \$33,000,000 at rates of interest same as in 1837; only \$809,900 of these notes were re-issued; all but \$200,000 were retired prior to 1851.

Act of March 3, 1849, providing for the coinage of twenty-dollar gold pieces.

Act of March 3, 1851, providing for the coinage of three-cent pieces.

Act of February 21, 1853, changing the weight and fineness of fractional coins.

Acts of December 23, 1857, December 17, 1860, and March 2, 1861, authorizing issues of notes bearing interest from 3 to 12 per cent.

Act of July 17, 1861, authorizing issue of \$50,000,000 Treasury notes and \$140,094,750, three-year 7 3-10 per cent. interest notes.

Act of February 12, 1861, authorizing issue of \$10,000,000; Act of February 25, 1862, authorizing issue of \$150,000,000; Act of June 11, 1862, authorizing issue of \$150,000,000; Act of December 31, 1862, making notes receivable for customs and all public dues. Acts of February 25, March 1, March 17, and July 11, 1862, authorizing issues of temporary loan certificates.

Act of February 25, 1863, authorizing formation of National Banks of issue. Acts of March 3, 1863, providing for nickel three-cent pieces; authorizing the issue of gold certificates; authorizing an issue of \$150,000,000 notes; and authorizing the issue of \$44,520,000 one-year 5 per cent. notes, and \$166,480,000 of two-year 5 per cent. notes.

In the aggregate, \$450,000,000 of United States demand notes were authorized. The highest amount outstanding at one time was \$449,338,902, on January 3, 1894.

Acts of June 3, 1864, amending National Bank act; June 30, 1864, limiting issue of notes to \$400,000,000 and \$50,000,000 temporarily to retire temporary certificates, to increase temporary loan certificates to \$150,000,000; authorizing issue of \$266,675,440 three-year notes bearing 6 per cent. compound interest.

Act of March 3, 1865, limiting issue by National Banks; March 3, 1865, amending act of June 30, 1864, authorizing the issue of \$829,992,500 of three-year notes bearing 7 $\frac{3}{10}$ per cent. interest.

Act of May 16, 1866, providing for a nickel five-cent piece; Act of April 12, 1866, limiting retirement of United States notes to \$10,000,000 per month for six months, and \$4,000,000 per month thereafter.

Act of March 2, 1867, authorizing issue of \$50,000,000 3 per cent. certificates of deposit, to redeem compound-interest notes.

Act of February 4, 1868, suspending further retirement of United States notes. Act of July 25, 1868, authorizing issue of \$25,000,000 3 per cent. certificates of deposit additional.

Act of March 18, 1869, in which the faith of the United States was solemnly pledged to the payment, in coin or its equivalent, of the United States notes, and to make provision at the earliest practical period for their redemption in coin.

Act of July 8, 1870, authorizing \$678,000 five-year 4 per cent. certificates of deposit. Act of July 12, 1870, increasing authorized issue of National Bank notes by \$54,000,000.

Act of June 8, 1872, authorizing issue of currency certificates.

Act of February 12, 1873, revising coinage laws, providing for three-dollar gold pieces, and omitting the coinage of silver dollars. The total coinage of silver dollars prior to 1873 was \$8,045,838.

Act of June 20, 1874, fixed the maximum of United States notes at \$382,000,000.

Act of January 14, 1875, remitting mint charge for coinage of gold, making the coinage of gold free; providing for the redemption of United States notes in coin on and after January 1, 1879; and repealing all provisions limiting the increase or decrease of National Bank notes.

Act of February 28, 1878, authorizing the coinage of silver dollars of not less than \$2,000,000 nor more than \$4,000,000 worth of silver bullion monthly, and the deposit of the same in the Treasury for silver certificates. Act of May 31, 1878, prohibiting the further cancellation of United States notes and directing the re-issue of such as might be received or redeemed by the Treasury, fixing the amount outstanding at \$346,681,016, as it was at the close of business on the day the act was approved.

Act of February 26, 1879, authorizing an issue of \$40,012,750 refunding certificates 4 per cent., interest payable on conversion into 4 per cent. bonds.

Act of July 12, 1882, limiting issue of gold certificates by suspending the same whenever the amount of gold coin and bullion in the Treasury, reserved for the redemption of United States notes, should fall below \$100,000,000; also permitting National Banks to hold silver certificates as a part of their reserve; and providing for the extension of the charters of National Banks for an additional period of twenty years.

Act of July 14, 1890, discontinuing the coinage of silver dollars after July 1, 1891, and limiting it, thereafter, to the amount required to redeem Treasury notes authorized by the act, which provides for a

mandatory purchase of 4,500,000 ounces of fine silver each month, payment to be made for the same in Treasury notes redeemable in coin, and declaring it to be "the established policy of the United States to maintain the two metals (gold and silver) on a parity with each other, upon the present legal ratio (15.988 to 1) or such ratio as may be provided by law." In order to accomplish this, it became necessary, when Treasury notes were presented for redemption, to pay, on demand, either gold or silver, as the holder preferred. The gold reserve was used to redeem in gold, when demanded, notes issued under this act, and the fund consequently diminished rapidly, until in April, 1893, it was below \$100,000,000.

Act of November 1, 1893, repealed the portion of the law of 1890 directing the purchase of silver and the issue of Treasury notes.

This legislative record shows conclusively that we can never have a stable currency and banking system until we adopt a system that will accord, in every particular, with the natural law of money. During a century of national legislation from 1787 until now (and half a century of legislation by the several states, from 1787 until 1864, no account of which is here given), a century of experiments, makeshifts, and expedients to provide the people with currency, there was no change in the natural law of money. It was true in 1787 and it is true to-day, that "such a thing as a lack of sound currency is not possible so long as man continues to be a producer of commodities, unless by false legislation he corrupts his money or throws restrictions around it that lessen its efficiency."

THE PAYMENT OF THE PUBLIC DEBT.

All paper currency, interest-bearing notes and bonds issued previous to 1861 that have been presented, have been redeemed or converted into new bonds.

Interest-bearing notes were issued from 1861 to 1865, amounting to nearly \$1,450,000,000. This vast amount has been redeemed or converted into bonds, excepting about \$360,000.

Temporary loan certificates were issued and re-issued from 1862 to 1864 mounting to \$716,099,247. They have all been retired excepting about \$3000.

Certificates of indebtedness bearing 6 per cent. interest were issued from 1862 to 1866, amounting to \$561,733,241. They are all paid excepting about \$4000.

Certificates of deposit bearing 3 per cent. interest were issued and re-issued from 1867 to 1868, amounting to \$88,155,000. They have all been redeemed excepting about \$5000.

Certificates bearing 4 per cent. interest were issued in 1870 amounting to \$678,000. They have all been paid.

Refunding certificates bearing 4 per cent. interest, when converted into 4 per cent. bonds, were issued in 1879 amounting to \$40,012,750. Up to November 1, 1893, they had all been converted into bonds excepting about \$64,690.

Fractional currency was issued from 1862 to 1867, amounting to \$368,724,079.45. Up to June 30, 1894, there was outstanding, \$15,273,075.75.

The bonded debt in 1866 was \$1,213,000,000. It

reached its highest point in 1869, when it was \$2,166,000,000. In 1879, the year in which specie payment was resumed, it was \$1,952,000,000. It decreased every year thereafter until 1892 and 1893 when it was \$649,000,000.

Increases in the bonded debt were made in the years 1867, 1868, 1869, 1874, 1878, and 1879 as the result of funding interest-bearing notes, temporary loan certificates, certificates of indebtedness, and other interest-bearing paper.

The bonded debt was increased \$100,000,000 in 1894 by the sale of bonds to cover deficiencies caused by insufficient revenue and to strengthen the gold reserve.

All payments of the public debt have been made in gold or gold values. This record proves the ability of the people of this country to pay all obligations on demand in gold and to maintain a gold standard of values.

RESUMPTION OF GOLD PAYMENTS AND THE MAINTENANCE OF A GOLD STANDARD OF VALUES.

The Treasury began the redemption of United States notes in gold, on demand, January 1, 1879, with over \$114,000,000 of gold in excess of outstanding gold certificates. The redemption for the first month amounted to only \$1,571,725, and the entire amount redeemed (afterwards re-issued) to June 30, 1894, was \$163,098,829.

On August 13, 1890, the Treasury commenced issuing Treasury notes of 1890 in payment for silver bullion. The issue of these notes outstanding June 30,

1894, was \$152,584,417. The amount of these notes redeemed in gold up to June 30, 1894 was \$67,154,552. Only about \$5,000,000 had been redeemed in silver up to that time. All redeemed notes are re-issued. \$155,931,002 is the highest amount of Treasury notes issued.

The lowest amount of free gold in the Treasury in 1879, the year in which gold payments were resumed, was, January 31, \$116,600,000. With the Resumption Act in operation, the amount increased until on October 31, 1879, it was \$157,000,000. It reached the highest point March 31, 1888, when it was \$218,800,000. On May 31, 1890, it was \$190,500,000. The Silver Purchase Act was enacted July 14, 1890, and repealed November 1, 1893, on which date the amount of free gold in the Treasury was only \$84,300,000. In February, 1894, under authority of the Refunding Act of July 14, 1870, and the Resumption Act of January, 14, 1875, the Secretary of the Treasury sold \$50,000,000 of ten-year 5 per cent. bonds, to obtain gold to strengthen the reserve. These bonds were sold at a premium and netted the Treasury \$58,660,917.63 in gold. After the gold, so obtained, was added to the reserve, its amount continued to fall until August 9, 1894; it was then, \$52,187,000, the lowest point ever reached. On November 22, 1894, it was but \$59,054,249. Another issue of \$50,000,000 of ten-year 5 per cent. bonds was sold in November, 1894. These bonds netted the Treasury \$58,538,500 in gold, which raised the reserve to \$111,142,000 on December 6, 1894.

The loss of gold by the Treasury is largely the re-

sult of a doubt of the disposition of the people of this country to maintain a gold standard of values. In the light of their record in paying the public debt, there cannot be, nor is there any question as to their ABILITY to do so. The doubt as to their DISPOSITION to do so is entirely the result of unwise legislation.

The acts of April 12, 1866, and February 4, 1868 were not intended to make a departure from the gold standard. This fact is proved by the act of March 18, 1869, solemnly pledging the faith of the United States to the payment of all United States notes in coin or its equivalent, and to make provision at the earliest practical period for their redemption in coin. When this pledge was enacted, gold was practically the only coin in use in the United States and therefore was the only coin that could have been intended by the act.

The silver dollar was then an obsolete coin. The law had permitted the free coinage of silver since April 2, 1792, yet the total amount coined prior to 1873 was only \$8,045,838, while the amount of gold coined during the same period was \$781,656,541. The silver dollar was not a standard of value for about thirty-five years previous to 1873. There had been practically no silver in circulation during that time.

The gold dollar, not the silver dollar, as is popularly supposed, was the standard dollar of value for the generation preceding 1873.

Our silver legislation is the cause of the doubt of our DISPOSITION to maintain a gold standard of values. The opportunity for this legislation was caused

by the failure to provide an elastic currency redeemable in gold, when the first demand for more currency made itself manifest in the acts of April 13, 1866, and February 4, 1868.

DEMAND FOR CURRENCY AN UNWISE ANSWER.

The act of May 31, 1878, prohibiting the further cancellation of United States notes and directing the re-issue of such as might be received or redeemed by the Treasury; of February 28, 1878, requiring the purchase and coinage of \$2,000,000 worth of silver every month, the coined silver to be retained in the Treasury and silver certificates, redeemable in coined silver, to be issued therefor; of July 14, 1890, requiring the purchase every month of 4,500,000 ounces of silver to be paid for in Treasury notes redeemable in coin; each of these acts is an unwise answer to a demand for more currency. These acts are evidence of the fact that the unsound currency legislation, enacted as war measures, started the people in the wrong direction. It caused them to believe that the government can make money, and that to have money plenty, it is only necessary to require the Treasury to issue more paper currency. The unwise monetary legislation of 1878 and 1890 is the outgrowth of this fundamental error. The cost of the panic of 1893 is a part of the penalty the people have paid as the price of this error.

CHAPTER VII.

GOLD REDEMPTION BY THE UNITED STATES TREASURY.¹

“Frequent issues of bonds for the purpose of procuring gold, which cannot be kept after it has been obtained, will certainly cause increased distrust among our own people, as well as among the people of other countries, and not only swell the volume of our securities returning from abroad for sale or redemption, but increase the withdrawals of foreign capital heretofore invested in our domestic enterprises ; and it must be admitted by all, no matter what opinions they entertain upon the current question of finance, that such a condition of affairs cannot permanently continue without still more serious consequences to the material interests of all of our citizens than have heretofore been experienced.”—JOHN G. CARLISLE, Secretary of the Treasury.

✓ “A commission, non-partisan in its character, composed of men of eminent abilities, could unquestionably devise a currency system sound in every part, and one which would commend itself to every interest of the country. It could largely take the question out of politics and have it considered simply in its business aspects and upon merit alone. If nothing more definite can be accomplished, the question of the creation of such a commission ought to be considered and acted upon.”—JAMES H. ECKLES, Comptroller of the Currency.

— “It is the record of a year of almost unprecedented business depression and financial distress, and so intimately is the postal service connected with the business interests and affairs of the country that whatever conditions affect them are immediately reflected in the volume of postal revenues. The average annual increase of postal

¹ *The Banking Law Journal*, January, 1895.

revenues due to the general growth of the business of the country, is about 8 per cent. The depression of private business continued throughout the entire fiscal year. It resulted that the receipts of ordinary postal revenue were actually less by 1 per cent. than for the preceding year. The deficiency in postal revenues for the fiscal year was \$9,243,935."—WILSON S. BISSELL, Postmaster-General.

DECREASED business means decreased prices for products, decreased employment and wages for labor, decreased volume of currency in actual circulation, decreased revenues for the government, and, therefore, less money for those who unintelligently sought to make money plenty by causing the enactment of our unwise currency legislation.

The fact that the bids aggregated \$154,370,000 for the \$50,000,000 worth of bonds sold in November, 1894, and that the entire loan was placed at a premium which brings the rate of interest down to 2.878 per cent. per annum is indisputable proof that a vast amount of labor and capital is idle. This is evidence that those who demanded more currency have been deprived of the means of obtaining currency by the unwise legislation enacted in answer to their demand.

When the effect of legislation enacted in 1878 and 1890 upon the stability of the gold standard of values became apparent to public perception, a general liquidation and curtailment in every industry and vocation throughout the country occurred. The natural economic laws that had been violated exacted with impartial justice the penalty of violation from the workingman having no means, from the man of moderate means, and from the United States gov-

ernment, and all between these extremes. Expenses could not be curtailed as fast as revenues decreased, and the result has been, for every one, greatly diminished profits, or an actual loss and increased debt.

**TREASURY GOLD LIABILITIES FOR SILVER COIN AND
PAPER CURRENCY.¹**

That want of confidence in the stability of the gold standard is fully justified by the facts, is proved by the condition of Treasury gold liabilities for maintaining parity between gold and silver coin and the redemption of paper currency.

1. On December 31, 1894, the silver coin and paper currency issues were as follows :

Coined silver dollars.....	\$ 422,426,747
Fractional silver and minor coin.....	77,155,722
United States notes.....	346,681,016
Treasury notes 1890.....	150,823,731
National Bank notes.....	206,605,710
Gold certificates.....	53,420,869
Silver certificates.....	236,924,504
Currency certificates.....	48,965,000

Total silver coin and paper currency.... \$1,643,003,301

From this amount the following deductions must be made for coin and currency held in the Treasury and for duplications in the statement :

¹ The figures used in this statement are all derived from official sources and corrected to December 31, 1894.

Free silver dollars in Treasury ¹	\$ 27,613,155
Fractional silver coin in Treasury.....	14,483,636
Free United States notes in Treasury....	34,914,158
Treasury notes 1890, in Treasury.....	28,369,950
National Bank notes in Treasury.....	4,759,972
Gold certificates covered by special deposit	53,420,869
Silver certificates covered by coined dollars	336,924,504
Currency certificates covered by U. S. notes.....	48,965,000
Total deductions.....	\$ 549,511,244
Total silver coin and paper currency....	\$ 1,643,003,301
Less total deductions.....	549,511,244
Total gold redemption liability,.....	\$ 1,093,492,057
Free gold in Treasury, December 31, 1894 \$	86,244,445

GOLD REDEMPTION OF COINED SILVER DOLLARS.

It is technically true that coined silver dollars cannot be presented for redemption in gold with direct legal right. The Act of July 14, 1890, declares it to be "the established policy of the United States to maintain the two metals (gold and silver) on a parity with each other, upon the present legal ratio (15.988 to 1) or such ratio as may be provided by law."

"There is but one way in which the two metals can be held in circulation at a parity under any ratio that may be adopted, and that is to close the mints to the free coinage of the cheaper metal and make it redeemable in the other."²

¹ In addition the Treasury holds \$125,014,161 of silver bullion against treasury notes of 1890.

² *The Natural Law of Money*, by William Brough, G. P. Putnam's Sons, New York, 1894.

The Act of July 14, 1890, repealed so much of the Act of February 28, 1878, as required the purchase and coinage of silver, but it directed the monthly purchase of 4,500,000 ounces of silver bullion and the issue of Treasury notes redeemable IN COIN in payment for the same. "In order to maintain parity between United States notes (legal-tender notes) and the United States notes of 1890, it became necessary when the latter were presented for redemption, to pay on demand either gold or silver as the holder might prefer; a refusal to do so would have made the notes silver notes."¹

If it is necessary to redeem silver notes in gold to maintain parity, it is equally necessary to redeem silver coin in gold, at the option of the holder, to fulfil the declared policy to maintain the two metals on a parity.

Parity is a commercial condition. When the bullion value of a gold and of a silver dollar is the same, the two coins will circulate as of equal value—that is, on a parity—in any country in the world, without the aid of legislation. When their bullion value is not equal, all the legislation that can be enacted by this country alone, or by this country in combination with all other countries, cannot cause them so to circulate. The only place in the world where a silver dollar is received as of equal value with a gold dollar is the United States Treasury and the country under the jurisdiction of the United States laws. It would not be so received there if the law did not require the Treasury to maintain parity between gold and

¹ *The money of the United States*, by Maurice L. Muhleman, 1894.

silver at the coinage ratio. When the Treasury fails to do this, the silver and paper currency of this country will be worth but fifty cents on the dollar. This condition makes the redemption of silver dollars a gold redemption liability of the Treasury.

GOLD REDEMPTION OF FRACTIONAL SILVER AND MINOR COIN.

The law makes this class of coin redeemable in "lawful money" at the Treasury in sums of \$20 or any multiple. Lawful money is gold coin, silver dollars, United States notes, and Treasury notes of 1890, all redeemable in gold.

GOLD REDEMPTION OF UNITED STATES NOTES.

The law makes these notes redeemable IN COIN at the Sub-Treasury in New York and San Francisco in sums of \$50 and over. Coin is either gold or silver. The holder demands gold. The Act of May 31, 1878, DIRECTS the re-issue of such United States notes as might be received or redeemed by the Treasury. Therefore, to speak correctly, these notes are never redeemed.

GOLD REDEMPTION OF TREASURY NOTES, 1890.

The law makes these notes redeemable in coin at the Treasury. Coin is either gold or silver. The holder demands gold. The Act of July 14, 1890, provides that these notes may be re-issued after redemption, therefore there is no obligatory redemption.

GOLD REDEMPTION OF NATIONAL BANK NOTES.

The law makes these notes redeemable in "lawful money" at the Treasury or bank of issue. The bank of issue may redeem in silver dollars, United States notes, or Treasury notes of 1890. One bank can send the notes of another bank to the Treasury for redemption in "lawful money" and then present whatever it receives for redemption in gold. Lawful money must be redeemed by the Treasury as long as a gold standard of value is maintained. Upon the ability of the Treasury to do this, the maintenance of a gold standard of values depends.

OTHER REDEMPTIONS.

GOLD CERTIFICATES are redeemable in gold but are not liabilities as they are covered by a special deposit of gold.

SILVER CERTIFICATES are redeemable in coined silver dollars for which a special deposit of silver dollars is held. These silver dollars must be redeemed in gold if parity is to be maintained.

CURRENCY CERTIFICATES are redeemable in United States notes for which purpose a special deposit of these notes is held.

This analysis clearly shows that the gold redemption liability of the Treasury on December 31, 1894, was \$1,093,492,057. The amount of free gold in the Treasury on that date was \$86,244,445, therefore the Treasury had outstanding nearly thirteen dollars (\$12.68) in silver coin and paper currency, for every dollar of gold it had in hand available for redemption

purposes. Correctly to show the gold liabilities of the Treasury, there must be added to the gold redemption liabilities, payments of principal and interest on the public debt and all payments due in foreign countries.

This statement clearly shows that while the law provides for and permits the CONVERSION of one form of currency into another form of currency, it nowhere requires, and at the most vital point prohibits the actual redemption of a single dollar. Re-examine the list in the light of this statement :

COINED SILVER must be convertible into coined gold at the option of the holder, or PARITY between the value of a gold and a silver dollar in the hands of the holder will be destroyed. When silver coin is received and gold coin paid out, the silver coin is re-issued. THIS IS NOT ACTUAL REDEMPTION.

FRACTIONAL SILVER and MINOR COIN are convertible into LAWFUL MONEY. All lawful money is directly or indirectly convertible into gold coin, and may,—some of it must, then be re-issued. THIS IS NOT ACTUAL REDEMPTION.

UNITED STATES NOTES are convertible into gold coin and MUST THEN BE RE-ISSUED. THIS IS NOT ACTUAL REDEMPTION.

TREASURY NOTES OF 1890 are convertible into gold or silver coin and MAY BE re-issued. THIS IS NOT ACTUAL REDEMPTION.

National Bank notes are convertible into LAWFUL MONEY. All lawful money is convertible into gold coin and then may be or must be re-issued. THIS IS NOT ACTUAL REDEMPTION.

All provisions are for convertibility, none of them are for actual redemption. As a result the Treasury may sell a thousand millions of bonds for gold and permit the conversion of every dollar of silver and paper currency into gold, and it will then have all this silver and paper currency to re-issue and the entire process to repeat, without actually reducing its gold redemption liability by a single dollar. Redemption occurs only when the obligation is cancelled.

The laws, as they now stand, maintain the gold liability as a constant factor, but are powerless to prevent the free gold balance in the Treasury from being a fluctuating factor. With the free gold in the Treasury at \$86,244,445, the gold liability is \$12.68 for every dollar of gold in hand; with the free gold in the Treasury at \$50,000,000, the gold liability is \$22 for every dollar of gold in hand. This is a direct perversion of the requirements necessary to establish or to maintain a stable and safe currency.

Gold is the standard of value in Canada. For the gold redemption of its paper currency, 15 per cent. in that metal is held. There has been no general suspension of specie payment in Canada for forty years. There was none in 1857, when New York banks suspended with one dollar of gold in hand for every three dollars of their paper currency in circulation. They were carried down by the general distrust of all banking institutions caused by unsound banking in other states. Confidence in the stability of a standard of value, and the prompt redemption of all coin and paper currency in the standard coin, is

a fundamental condition of prosperity. Prosperity cannot exist where such confidence is not warranted by the facts.

THE GOOD FAITH OF THE PEOPLE AND OF THE GOVERNMENT MUST BE AGAIN DEFINITELY AND DECISIVELY PLEDGED TO MAINTENANCE OF A GOLD STANDARD OF VALUE.

To the gold redemption of our silver coin and paper currency, the good faith of the United States government, and, through it, the good faith and commercial honor of the people of the United States, was most solemnly and irrevocably pledged by Act of Congress, March 18, 1869. Upon the unquestioned fulfilment of this pledge, a large percentage of the present value of all public and private securities and property in the United States is dependent. For commercial reasons, if not for honor, for selfish reasons, if not for patriotism, the people of this country must maintain a gold standard of values, let it cost what it may. There is no choice. The cost of a failure to do so will exceed the cost of maintaining a gold standard a thousand-fold. The fundamental requirement for the maintenance of a gold standard, is a clear and decisive declaration from the people, unqualified and unclouded by any other consideration, that it is their will that it shall be done.

When the crucial test comes, the doubt as to whether or not a decisive majority will demand the maintenance of a gold standard, or favor the adoption of a silver standard of values, is the funda-

mental cause of the loss of gold we have suffered since the legislation of 1878 and 1890. These acts are unwise attempts to appease the demands of the corrupt, the misinformed, and the uninformed. Stability cannot be secured by compromising with error. The loud talk of a few who have risen to power by appealing to the prejudices, instead of the honesty and intelligence of the debtor class, the workingmen, and the unemployed, and the gains they have made by the legislation they have forced upon the statute books, is being mistaken for "the voice of the people." While there is not a sagacious financier or economist in the world who doubts our ABILITY to maintain a gold standard of values, the loudly-repeated demand for "more money" and the legislation we have permitted, in unwise attempts to satisfy the demand, are causing close observers everywhere to doubt the sincerity of our DISPOSITION to maintain such a standard. In its last analysis the question is one of disposition, not ability. If, by a decisive majority, the people clearly declare themselves unalterably determined to maintain the gold standard, which I believe they will do if the question is rightly placed before them and proper opportunity is afforded them,—that fact will end the demagogues' demand, in the name of the people, for the free coinage of silver, and with the disappearance of this demand, all doubt as to the STABILITY of our standard of value will vanish. When that doubt has vanished, no more bonds will be placed, for the double reason, gold will not be required, and capital can gain larger profits by employing labor. This is the open road to more

money for workingmen. There is no doubt but such a decision can be obtained. Our self-interest, our honor, and our patriotism demand that it shall be done. It is our duty to see that there is no discrepancy between the requirements of our patriotism, our interests, and our legal enactments.

THE GOVERNMENT HAS NO MEANS OF OBTAINING GOLD.

There are but two methods by which the government can obtain gold. Both of them are now closed by distrust as to future legislative action and the present condition of the currency. As a result the government has no means of obtaining gold.

The law says that all customs dues shall be paid in gold. The practice is to pay them in paper currency. Why? Because the government can gain nothing, but one or two days' time, by requiring holders of paper currency to make one or two transactions before reaching final redemption in gold coin. By refusing to accept its paper currency for customs dues under the present redemption laws, the government would simply make it necessary for the holder of paper currency to take it to one counter there to be redeemed in gold, and then to take the gold to another counter and pay his customs dues.

While, as a question of law, all forms of coin and paper currency are not directly redeemable in gold, as a question of practical business they must be so redeemed. The moment such redemption is refused, parity between our dollars of gold, our dollars of sil-



ver, and our dollars of paper will cease to exist and the government will be either an acknowledged repudiator or a bankrupt.

From 1879 to 1892 the gold reserve was rarely drawn upon. The public saw no indications of a failure to obtain gold for paper on demand, and therefore preferred to keep the more convenient paper. During this period paper currency circulated freely and the government enjoyed a large income through the VOLUNTARY payments of duties in gold. From October, 1891, to October, 1894, the gold reserve was called upon to redeem paper currency at an average rate of \$6,000,000 per month, and its gold income almost entirely disappeared through the VOLUNTARY payment of duties in paper currency. All paper currency redeemed during this time has been re-issued, so there has been no actual redemption, and the volume of currency has been increased by an issue of Treasury notes of 1890, aggregating \$155,931,000 in payment for silver bullion. Of this issue, up to September 30, 1894, \$68,543,138 had been redeemed in gold and then re-issued. No actual redemption!

As long as there is a probability that the time may come when a silver dollar or a paper dollar will not pass as being of equal value with a gold dollar, THE FACTOR OF CONVENIENCE will be inoperative, and the question of GETTING AND KEEPING GOOD VALUE will be the paramount consideration. This is why people pay out silver and paper dollars and hoard gold. This explains why, under existing conditions, the government does not receive gold for customs dues.

A SUFFICIENT GOLD RESERVE CANNOT BE MAINTAINED BY THE SALE OF BONDS.

I am aware that it is a popular opinion that the government can obtain all the gold it wants by the sale of bonds. Does it ever occur to those who hold this opinion with so much satisfaction to note the broad difference there is between OBTAINING and RETAINING gold? The result of the sale of \$100,000,000 of bonds in 1894 will destroy the fallacy of attempting to maintain a necessary gold reserve by the sale of bonds. To-day the public is asked to cheer because a syndicate has put \$58,709,735 into the Treasury for \$50,000,000, five-year, five per cent. bonds, which brought the gold reserve up to \$108,000,000. The public should reflect that to-morrow this same syndicate can take \$108,000,000 of United States notes to the Treasury and demand every dollar of it in gold, but we are assured that this syndicate is under MORAL obligations not to present currency for redemption and by this means get its gold back again. Those who urge this consideration acknowledge that the credit of the government is dependent upon the good-will of a few men who have agreed not to present the obligations they hold for payment. Their agreement cannot bind all others. From a thousand sources the obligations of the government will be presented for payment, and they must be paid. In doing this the government must part with the gold it has borrowed. There is no mystery about this. If a person owes a gold obligation and borrows gold on a new obligation with

which to pay the first one, and repeats the operation to pay the second, and so on continuously, how many transactions will he have to make before he can retain any of the gold? If he finally EARNs gold enough to pay the obligation and pays it, will he have any gold left?

In February, 1894, \$50,000,000 of bonds were sold to secure gold. Of this amount \$16,000,000 in gold were taken out of the Treasury in the same month. Within eight months all of the \$50,000,000 in gold had disappeared from the Treasury and another \$50,000,000 of bond were sold to get more gold. These two bond issues add \$100,000,000 to the interest-bearing debt and give the Treasury \$100,000,000 in gold or paper currency to make up deficiencies in revenue and enable the government to pay its current obligations. The last \$50,000,000 of gold borrowed will disappear in one half the time required to withdraw the \$50,000,000 covered by the first loan. Within four months from the date of sale, the free gold in the Treasury will not exceed, in amount, the free gold held on the day bids were invited for the purchase of the bonds.

The policy of issuing bonds to pay current expenses—not to obtain gold for a Treasury reserve, as is popularly supposed—shows that our financial disease has reached an acute stage, and that heroic remedies must now be employed or grave disaster must soon result.

The last call for bids for the purchase of bonds was a cry of distress—the last rattle of a system of political financiering that is doomed to death. Were

it not for the fact that this call and the manner in which it has been answered will intensify the prejudices of the class, to pacify which our unwise currency legislation was enacted, the placing of this loan might be hailed as an indication that the situation must soon improve. The demonstration now so near completion, that the government has no means of obtaining gold with which to meet its obligations, and that its credit can be maintained only by the voluntary and patriotic action of its citizens kindly agreeing not to present for payment the obligations they hold, must force a reorganization of our entire currency and banking system. This will be a work of time. How can the Treasury be kept in an apparently solvent condition during the interval?

PATRIOTISM AND FINANCE.

The repeal of the law requiring the purchase of silver bullion was the first step necessary to avoid further danger of the depreciation of our currency, but it is not the only step that must be taken. For a time, attention was diverted from currency problems by the intervention of other questions. These having been disposed of for the present, the currency question now comes forward and demands settlement. For the first time people appear now fully to realize that the Treasury is on the verge of bankruptcy, to which it is irretrievably doomed by the logical operation of our laws, and from which it can be saved only by the patriotism of our financial institutions.



The last issue of bonds advises all the world that the Treasury is doing business on an insufficient revenue, and that the attempt to supply the country with currency from the Treasury and through National Banks of issue as now organized, and to maintain the same at par with gold, is a failure.

When a debtor fails, the creditor fares best who can be in at the death with his demands and secure full payment for his claim. The only way a catastrophe can be prevented, under existing conditions, is to hoard silver coin and Treasury notes so that they cannot be used for the payment of customs dues, nor presented for redemption. In addition to this, the banks should furnish all gold required for export. In this way time can be gained to permit Congress to enact a few measures for immediate relief, and to prepare the country for a complete reorganization of our currency and banking system.

Valuable as patriotism undoubtedly is as a factor in public affairs, confidence in the stability of a standard of value cannot be maintained by a sentiment. The public service rendered by every one who refrains from presenting the obligations of the government for payment in gold, when he has a clear right to do so, will be of high value. Of far greater value will be his services in creating a public opinion that will demand that the government shall retire its gold obligations and forever go out of the banking business. This will permanently relieve industry and commerce from the danger of having public and private credit destroyed by political financiering with government credit. This danger has existed and

has steadily grown more and more threatening since the first act of retrogression forbidding the further cancellation of United States notes.

It is the duty of patriotism to protect the credit of the government, first by voluntary action, and then by so legislating on currency questions as to remove from the sphere of doubt all questions as to the stability of the standard of value. In this way only can the country secure a currency that will be safe and sufficient.

A NEW NATIONAL BANKING SYSTEM MUST BE ORGANIZED.

We have boasted that our present National Banking System is "the best in the world." Our past prosperity and this boast have prevented us from seeing its defects. Defects it has, which must be clearly pointed out and understood before a better system can be devised to replace it.

The present National Banking System is founded upon an economic fallacy. The basis of its security is the public debt, which tends to grow smaller, while the business of the country tends to grow larger. The whole bonded debt amounts only to about one half the present volume of paper currency, of which the United States Treasury supplies about eighty-two per cent. and National Banks only about eighteen per cent. This shows that the liquidation of the present National Banking System is not an important factor in the solution of the currency problem. It shows how utterly inadequate this system is to supply all

the currency needs of the country and to take the Treasury out of the banking business. It shows that the real dependence of the country for currency has been, is, and, under existing conditions, must continue to be upon the Treasury. The present law relieves National Banks from all responsibility for maintaining a gold standard of values. The banks or individuals can take gold out of the Treasury by converting National Bank notes into "lawful money" and then presenting "lawful money" for redemption in gold. The law requires that all United States notes redeemed shall be paid out again. There is no actual redemption, and the wheel goes round continually, always carrying paper into the Treasury and gold into the banks. The only way the government can get gold out of the banks is by selling them interest-bearing bonds. This shows that the ability of the Treasury to redeem all silver coin and paper currency in gold is the only dependence of the country for the maintenance of a gold standard of values, and this while the Treasury has no source of gold income and the banks are in touch with the commerce of the world. By so changing the requirements of the law as to make National Banks, under a new system designed completely to displace the present system, responsible for the gold redemption of their own issues, the Treasury will be relieved from \$207,000,000 of its gold redemption obligations.

All of these unsound conditions, be it remembered, are the result of legislation enacted contrary to advice given by sagacious and experienced financiers then in the banking business. Bankers now

deprecate existing conditions more deeply than others can, because they know, as others cannot, what unsound currency legislation has cost and is still costing the people of this country. For these conditions no blame can attach to banks as such. They are organized and their business is conducted as the law directs. Any system that is best for the people will be acceptable to bankers.

An unqualified adoption of a gold standard of values, and a well-considered but radical reorganization of our National Banking System, will remove all doubt as to our DISPOSITION to maintain the stability of our currency.

HOW TO SECURE AN ABUNDANT VOLUME OF SOUND CURRENCY.

Capital is a citizen of the world. By founding our economic conditions on the requirements of natural economic law, not only our own citizens, but all intelligent people throughout the world will be inspired with an undoubting confidence in their stability. Then, neither workingmen nor capital will go begging for employment. All American workingmen can be employed at good wages and all American capital can be employed at a higher rate of wages than three per cent. There will then be no need to sell bonds. The public revenue will be sufficient for all purposes, and a diminishing rate of taxation will be possible.

The capital of the world is subject to the command of that people who can offer for its use the best profit and the best security. The best security

in the world is the absolute certainty that both profit and principal will be paid in gold and gold values. No people in the world have ability equal to our own to offer this security by the unqualified adoption of the gold standard as our basis of values. It is the fact that our government cannot continue to maintain a gold standard of values if our present monetary legislation remains in force, and the fear that those who appreciate the vital weakness of our currency system will be unable to institute a sound system of American currency and banking, that has caused the depletion of the free gold in our Treasury, created a currency famine among those who need more currency, and deprived the government of all means of obtaining gold. These conditions are entirely of our own creation. A clear understanding why they exist is necessary to the discovery of a way to remove them, and to the substitution of better conditions in place of them. This can be done.

WHAT A SOUND SYSTEM OF CURRENCY AND BANKING WILL DO.

A sound system of currency and banking will retire all government paper currency and therefore relieve it from all gold redemption obligations. This will enable the government to obtain gold, all it will need, through its commercial income from customs dues. It will take the United States Treasury out of the banking business and will supply, through properly organized banks of issue, a volume of currency ample for all legitimate needs of industry and com-

merce at all times, in all sections, and for THE REDEMPTION OF WHICH, IN GOLD, THE BANK OF ISSUE WILL BE RESPONSIBLE. It will relieve the financial affairs of the country, public and private, from the nightmare of suspension of gold payments that has so long kept the country in a state of unrest. It will accomplish this incalculable gain without increasing the public debt, contracting the currency, unsettling gold values or incurring risk of future trouble. All the gold the banks may require for the purposes of commerce or the redemption of their own notes, can be obtained in normal course of commercial transactions without drawing on the Treasury for a single dollar. All private obligations payable in gold, can be paid with gold supplied by banks. All gold required by the Treasury can be obtained by the payment of customs dues in gold. All silver coin and silver notes can be used for small transactions for which no gold is required and from which no person can suffer so long as a gold standard of values is maintained. A way can be found for the coinage of all silver bullion now owned by the government, and to absorb this silver coin into the financial system without causing a disturbance of gold values, so long as it is certain that we shall have no more of it. By doing this, the government will be saved from loss on the bullion it has bought, it will profit by \$55,000,000 of seigniorage, and silver producers will be relieved from the liability of the government entering the market as a seller of silver bullion, which is one of the factors now depressing the price of silver. There is no economic reason why



there should not be, in every village, town and county in this country, one or more banks of issue, the notes of which will always be at par in gold values, and in sufficient supply promptly to effect all legitimate exchanges of the products of labor desired by the people, and this without the use of one dollar of outside capital. The people must be taught that their prosperity is dependent upon the intelligent use of the resources and opportunities that are their own, not upon the action of their government. They must be shown that they can so use their own resources as to secure all the monetary relief for which they have ever asked, and more. Self-help is the countersign of economic freedom. When the people find, from experience, by the unqualified adoption of sound-money measures that they can induce the incoming of an era of solid prosperity, a decisive sound-money victory will be won, and a gold standard of values will be established beyond the possibility of doubt as to its stability.

With the memory of the distress of the past, with a knowledge of present conditions, with the possibilities of the future clearly in mind, the conclusion is inevitable that the attempt to supply a safe and elastic currency by issues from the United States Treasury, and from National Banks as now organized, IS A FAILURE. It may be affirmed, with equal certainty, that there is a better way.

IMMEDIATE LEGISLATIVE RELIEF.

It is the duty of Congress at all times, and especially when the Treasury is embarrassed for want of

funds and the public debt is increasing, to provide sufficient revenues for the prompt payment of all obligations. The taxing power of Congress is unquestioned, the ability of the people to pay is ample. Experience shows that the people can pay sufficient taxes to keep the Treasury in a position of absolute safety, when the currency is on a sound basis and the public debt is being decreased, much more easily than they can pay only a portion of the revenues required, when the stability of the standard of value is unsettled by unwise legislation and the public debt is increasing.

The first legislative duty is to increase income without increasing expenses. Since both income and expenses are necessarily matters of estimates when legislation providing for the same is enacted, the inevitable factor of error should be provided for by authorizing the Secretary of the Treasury to cover deficiencies by the issue, in large denominations, of TEMPORARY LOAN CERTIFICATES, bearing a low rate of interest and payable at his option within one year, as was done from 1862 to 1864. This will enable the secretary to manage the financial operations of the government as every sound financial institution is managed, will tend to prevent additions to the bonded debt, and keep the obligations of the government absolutely under the control of Congress.

The second legislative duty is to direct the Secretary of the Treasury to redeem United States notes and Treasury notes of 1890, and for this purpose, to issue INTEREST-BEARING TREASURY NOTES, in small

denominations, as was done from 1861 to 1865, receivable for all public dues except customs duties, and redeemable, after one year from date, in lawful money at the option of the secretary. This will quickly relieve the Treasury from its ACTIVE gold redemption liabilities. The law should require that all United States notes and Treasury notes of 1890 be cancelled as fast as received at the Treasury. These interest-bearing notes should be exchanged for United States notes and for Treasury certificates of 1890, at every post-office in the United States. This will enable every one who can save a little money to obtain an interest-bearing United States note that will accumulate interest while held, and will immediately pass as currency whenever needed for use. These interest-bearing notes will NOT be redeemable in gold, receivable for customs dues, nor convertible into LAWFUL money except at the option of the secretary, therefore they can never become a gold redemption liability of the Treasury. They can be used for the payment of all dues payable to the government EXCEPT customs dues. By this means about \$450,000,000 of gold redemption liabilities can be cancelled without resort to a permanent bond issue, and without unnecessary expense or delay.

The third legislative duty is the enactment of a joint resolution declaring that the word "coin" in the Act of March 18, 1869, solemnly pledging the faith of the United States to the payment of its debts "in coin or its equivalent," shall be construed as meaning GOLD COIN, in recognition of the fact that at the date of the enactment there was no silver coin in

existence, and directing the Secretary of the Treasury to demand gold coin in payment for all customs dues, as a means of accumulating gold for the purpose of such payments.

The fourth legislative duty is to authorize and provide for the organization of a monetary commission to take into consideration the entire subject of the currency and banking system, State and national, the relations of the Treasury thereto, and to report a measure to Congress, within one year, designed to take the United States Treasury out of the banking business.

POSTSCRIPT.

Confirming the statements herein made, the following memoranda are appended :

I. (See page 98). The balance of free gold in the Treasury February 12, 1895, was \$41,340,181.11. This is the smallest amount held by the Treasury on any day since the resumption of specie payment, January 1, 1879.

II. (See page 98).

TREASURY DEPARTMENT, }
OFFICE OF THE SECRETARY. }

WASHINGTON, D.C., February 13, 1895.

*To the President of the Senate :*¹

(Extract from Report.)

“Hence it appears that the original gold reserve, augmented by the gold proceeds of the sales of bonds, was diminished during the period of twenty-five months

¹ *Congressional Record*, February 14, 1895, page 2423.

(January 1, 1893, to February 1, 1895) to the extent of \$172,674,315.47, of which \$105,002,143.25 was directly or indirectly devoted to current expenses, and \$67,672,172.22, which has been converted into notes by the process of redemption, was still on hand. It is proper to state in this connection that when United States notes or Treasury notes of 1890 are redeemed in gold, they are received into and held as part of the general cash assets in the Treasury, the same as any other money belonging to the Government, and under the acts of May 31, 1878, and July 14, 1890, they are paid out when necessary to defray the public expenses. Whenever it has been possible to do so, the redeemed notes have been used to procure gold by exchange with banks and other financial institutions, and in this way a large amount of gold was restored to the gold reserve fund during the summer of 1893, and some since that time."

(Signed)

J. G. CARLISLE, *Secretary*.







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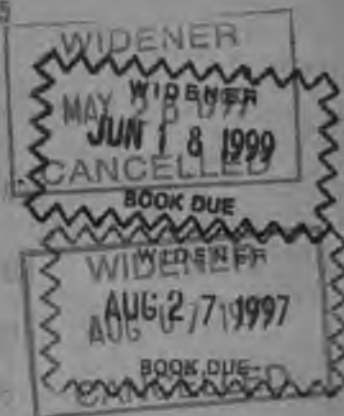
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